CITY OF EUREKA

Business Incubator Study

November 2015

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ESA

bae urban economics

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1 Introduction

This chapter of the Business Ready Study evaluates the potential opportunity for establishing a business incubator and/or economic gardening program within the City of Eureka. The chapter is divided into three subsections. The first section discusses the contemporary definition of business incubation, acceleration, and economic gardening and explores current trends in the business incubation and economic gardening industries. The second section reviews the process by which the ESA team identified the priority business incubation and economic gardening industry targets. The third and final section outlines the final industry targeting recommendations, as well as the basic physical development parameters for a business incubator geared towards the targeted sector(s), recommended programmatic supports, potential costs and funding sources, and economic gardening efforts that can complement the development of a physical business incubator facility.

The goal is to encourage new business formation and promote the growth of existing local businesses

2 Business Incubation and Economic Gardening in Practice

The following section begins with a brief discussion regarding the contemporary definitions of business incubators, business accelerators, and economic gardening programs. The section then explores some of the prevailing trends within each category based on a review of the available literature published by industry associations, economic development institutions, academic journals, government agencies, and other entities.

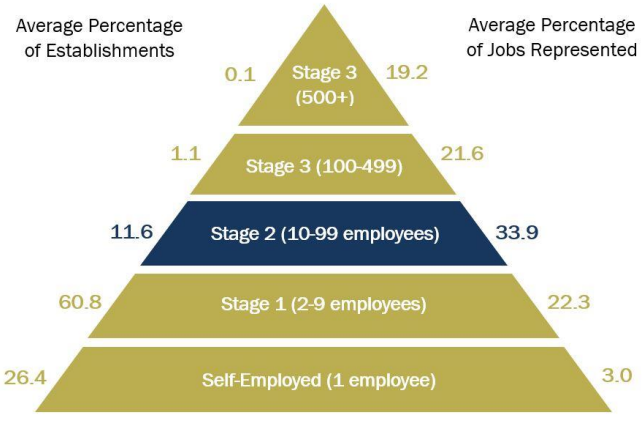
Defining Incubation, Acceleration, and Economic Gardening

The common theme among all business incubation, acceleration, and economic gardening programs is the goal of encouraging new business formation and promoting the growth and development of existing locally-based businesses. This is in direct contrast to the business recruitment strategies – sometimes referred to as "Smokestack Chasing" – which were popular in economic development circles during much of the 20th Century. By definition, business incubation, acceleration, and economic gardening programs emphasize growth from within, seeking to leverage existing competitive advantages and entrepreneurial energies.

Stages of Business Development

The Edward Lowe Foundation, a leading think-tank on early-stage business development, stratifies the business development continuum into five different categories or stages.[1] These are summarized in **Figure 1**. Businesses operating in the initial stage include self-employed persons and typically account for around 26 percent of all business establishments, but only three percent of all jobs. First stage businesses are early stage employer establishments, with two to nine employees and less than $1.0 million in revenues. These businesses account for nearly 61 percent of all establishments and more than 22 percent of all jobs. Second stage businesses include those that have reached some level of maturity. Day-to-day survival is no longer of immediate concern for second stage firms. These businesses have between ten and 99 employees and revenues up to $100 million. Second stage businesses account for nearly 12 percent of all establishments, but provide nearly 34 percent of all jobs. Third and fourth stage firms account for only 1.2 percent of all establishments nationwide, but provide nearly 41 percent of all jobs. These businesses have more than 100 employees and upwards of $100 million in total annual revenue.

Figure 1: The Five Stages of Business Incubation



Source: Lowe Foundation, *The Significance of Second Stage*, 2013.

[1] Edward Lowe Foundation. (2013). The Significance of Second Stage. Retrieved from: http://edwardlowe.org/edlowenetwp/wp-content/uploads/2013/09/Second stage.pdf

Business Incubators

The U.S. Economic Development Administration (EDA) and U.S. Department of Commerce (Commerce) define business incubation programs to include those designed to facilitate the successful establishment of entrepreneurial ventures, including startups and early stage businesses (i.e., self-employed and first stage), through an array of business support resources and services which are provided and/or orchestrated by a business incubator program manager and offered through the incubator, as well as through its network of affiliates and contacts.[2] The goal of a business incubator, or incubation program, is to graduate businesses that are both financially viable and independent. One defining characteristic of an incubator is the provision of tailored business support services, including management guidance, technical assistance, financial counseling, and professional mentoring, among other forms of assistance. Incubators may also provide access to special facilities and other real estate offerings, often featuring flexible lease terms and/or below market, or sliding scale, lease rates. Where physical work space is provided, incubators often provide shared equipment, administrative staff, and support services, such as information technology (IT) management and equipment maintenance.

While approximately 93 percent of business incubator programs in the United States provide dedicated incubator facilities, there is growing interest in virtual incubation programs, which provide comparable business development and support services, without dedicated facilities.[3] These programs are sometimes compared to a well-run Small Business Development Center (SBDC). These programs do not operate a dedicated incubator space (i.e., participants locate and secure their own space), or do so through a disaggregated approach, where incubator staff help program participants locate and secure appropriate space that is otherwise owned and operated by a private party. In some cases, this assistance can take the form of a program in which the incubator manager recruits property owners interested in supporting economic development and who are willing to work with tenants to ensure success.[4] While virtual programs are typically much less costly – which can make them a good option in rural

[2] Lewis, D., Harper-Anderson, E., and Molnar, L. (2011). *Incubating Success: Incubation Best Practices that Lead to Successful New Ventures*. U.S. Department of Commerce, Economic Development Administration. Retrieved from: http://www.nbia.org/docs/default-source/research/download-report.pdf?sfvrsn=0

[3] Knop, L. (2012). *2012 State of the Business Incubation Industry*. Athens, OH: NBIA Publications. Retrieved from: http://www.nbia.org/

[4] This can help to encourage a more stable longer-term owner-tenant relationship. For example, the property owner may collect rent on a sliding scale that increases commensurate with business revenues, up to the point of equilibrium with market rates. Businesses seeking to participate in this type of a program are often required to participate in business education and mentoring activities coordinated through the incubator. This helps to provide the property owner with some assurance that the business will be successful in scaling up commercial activities.

communities with disaggregated client pools – they typically offer less of a networking benefit.

Business Accelerators

Perhaps because there is no standard definition of a business accelerator, these programs are often conflated with business incubators. According to Susan Cohen at the University of North Carolina at Chapel Hill, accelerators are "organizations that provide cohorts of selected nascent ventures seed-investment, usually in exchange for equity, and limited-duration educational programming, including extensive mentorship and structured educational components. These programs typically culminate in "demo days" where the ventures make pitches to an audience of qualified investors." [5] [6] This definition highlights an important distinction between most accelerators, versus the more traditional incubators, which is that most business accelerator programs are private for-profit operations that seek to provide fast-test validation of high value business concepts. As a result, most accelerators are technology oriented, since the common trajectory among technology startups involves a relatively short period of product development, followed by the high-value sale of the company and/or its intellectual property. Because the accelerator typically takes an equity stake in each participant company, the program makes money when the company is sold, goes public, or when the accelerator's shares are purchased by a venture investor. That program revenue is then used to sustain and perpetuate the program, as well as to generate dividends to program investors. In exchange for transferring an equity stake in the company, each program participant engages in a boot-camp style educational program and receives a small amount of funding (often intended to simply sustain the participant while in the program, or to facilitate product development). Participants also receive targeted product development advice and are exposed to a broader network of entrepreneurs, professionals, and investors. Accelerators typically target businesses in a variety of stages, with most falling into the categories of self-employed and first stage. A minority of accelerator clients may also be second stage firms.

[5] Konczal, J. (2012, August 8). Evaluating the Effects of Accelerators? Not so Fast. *Forbes*. Retrieved from: http://www.forbes.com/sites/kauffman/2012/08/08/evaluating-the-effects-of-accelerators-not-so-fast/

[6] Anderson, I., Chen, J., Couette, C., and Ghosh, S. (2012). *Accelerating Success: Strategies to support growth-oriented companies*. Washington, DC: International Economic Development Council. Retrieved from: http://www.iedconline.org/book-store/edrp-reports/accelerating-success-strategies-to-support-growth-oriented-companies/

Economic Gardening Programs

The concept of "economic gardening" is a direct response to the long established presumption that local economic development policy should be based on business or industry recruitment and traditional business assistance, such as financial incentives. Programs designed using the economic gardening model focus on retaining and nurturing those locally based companies that are best positioned for growth, while fostering an economic environment or "entrepreneurial ecosystem" that is conducive to robust entrepreneurial activity. The advantage of this type of approach, in comparison to incentive-based recruitment strategies, is that the cost per job created is thought to be considerably lower, while any investment that is made remains within the community. Economic gardening is also designed as a long-term strategy, as opposed to a short-term fix. The services provided under the economic gardening model, as identified by the National Center for Economic Gardening, typically fall into four main categories, including market research, geographic information systems analysis, search engine optimization, and social media marketing. Just a few examples of how these tools can be applied include 1) helping companies identify market trends, potential competitors, and unknown resources; 2) mapping geographic areas for targeted marketing based on demographic and social indicators; 3) raising visibility through search engine results and increased web traffic; 4) tracking websites, blogs, and online communities (including social networks) to better understand competitors and customers; and 5) providing the information necessary to make informed decisions regarding core strategies and the preferred business model.

Economic gardening programs primarily focus on second stage companies. Again, this includes companies with between 10 and 99 employees and between $1 million and $100 million in total receipts. These companies generally account for the greatest number of new jobs per company and create the most wealth per employee, compared to both smaller and larger firms. By comparison, self-employed and first stage businesses create jobs at a rate of one or two per company, per year. These early stage businesses often involve basic retail activities, personal services, and other "main street" type activities which subject them to commodity pressures and limit the pay and benefits that they can offer. Beginning in the second stage, businesses often gain the ability to offer better paying jobs, with better benefits and more stability. The focus on second stage businesses also provides a valuable screening mechanism, since the ability to grow a company to ten or more employees demonstrates market demand and management capacity. With survival no longer being a daily concern, the needs of businesses begin to shift to strategic issues, such as refining their business development and marketing strategies, adapting to industry trends, expanding their market, building a management team, and defining leadership roles.

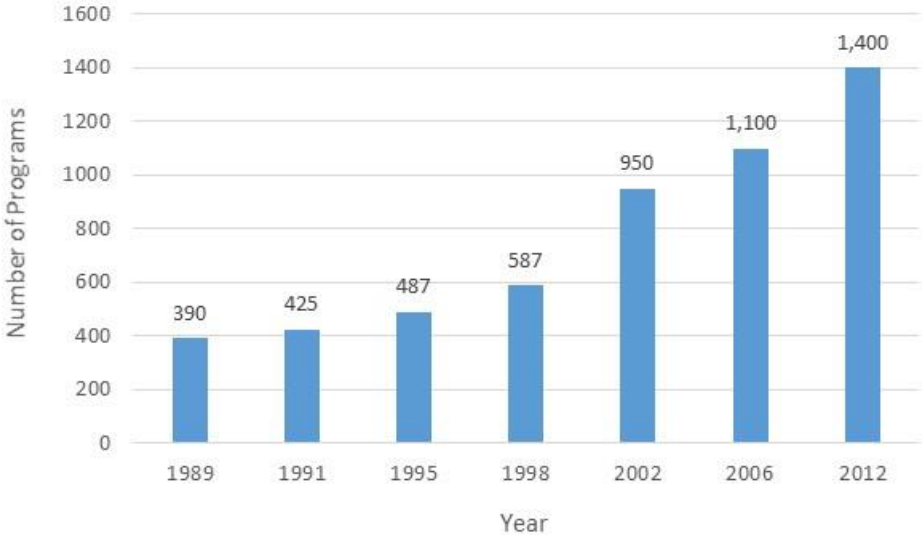
Contemporary Trends in the Economic Development Industry

The concept of business accelerators has only been around since 2005, while business incubators have existed, in some form or another, since as early as 1959. As with any other industry, the state of the art methods for business incubation, acceleration, and economic gardening have evolved over time. The remainder of this subsection briefly discusses the contemporary trends in the industry, based on a review of the existing literature.

Business Incubators

The first business incubator to be established in the U.S. was created in 1959 in Batavia, New York. Building on that model, business incubation programs have emerged as useful economic development tools for communities throughout the country. According to the National Business Incubation Association (NBIA), there were approximately 1,400 business incubator programs active in North America in 2012. This represented an increase of 27 percent since 2006, when an NBIA survey identified approximately 1,100 business incubators. This general growth trend is illustrated in **Figure 2**.

Figure 2: Number of Incubation Programs in North America

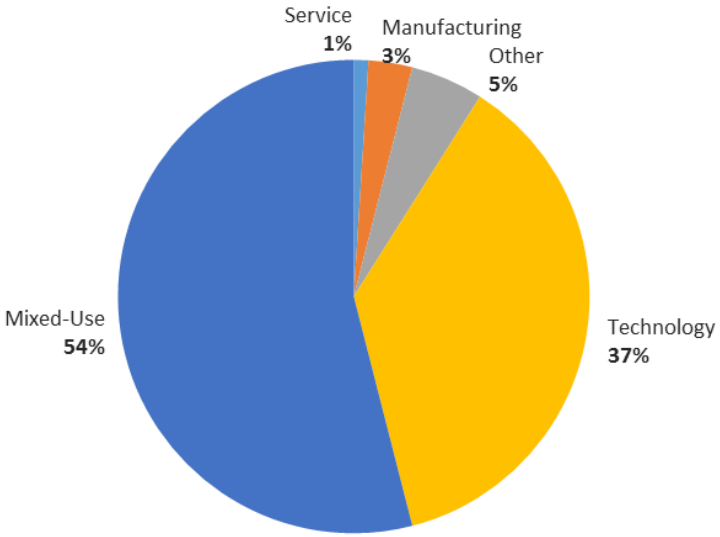


Source: NBIA, *2012 State of the Business Incubator Industry*, 2013.

The NBIA's *2012 State of the Business Incubation Industry* report describes the results of the most recent comprehensive survey of business incubator programs. The report indicates that the majority of business incubation programs follow the traditional model, offering a physical incubator facility that is operated by a nonprofit organization that provides core services, with job creation and other economic development objectives as part of its core mission. According to the survey, only seven percent of incubator programs were for-profit, a

percentage which remained unchanged since 2006.[7] An estimated 32 percent of business incubators were sponsored by some form of academic institution (including two- and four-year colleges, universities, and technical schools), while 25 percent were sponsored by a dedicated economic development organization and 16 percent were sponsored by a government agency. Only 15 percent had no sponsoring entity. The remaining 12 percent were sponsored by some other type of entity, including for-profit companies. The share of business incubators that are sponsored by academic institutions represented an increase over 2006. The relative prevalence of schools as supporting institutions coincides with use of business incubators as a mechanism to help faculty and researchers commercialize technologies developed through academic research. These programs also meet the goals of providing students with practical work experience and of promoting business development in the host community. The percentage of incubator programs sponsored by governments and economic development agencies represented a decrease from historic levels, which is primarily attributed to budget constraints and contractions at the state and local levels.

Figure 3: Percent of Programs by Target Industry



Source: NBIA, *2012 State of the Business Incubator Industry*, 2013.

In contrast to the often high profile media attention on incubation programs targeted toward niche industry sectors, such as high-tech and computer oriented businesses, the majority (54 percent) of the incubators surveyed by the NBIA were mixed-use programs that accept businesses from any industry, as illustrated in **Figure 3**. This percentage remained unchanged from 2006. Moreover, mixed-use incubators were somewhat more prevalent in rural areas, where almost two-thirds of incubators are mixed-use, since the more limited entrepreneurial pool makes specialization impractical, if not impossible. Approximately 37 percent of all incubators were exclusively technology oriented, which represented a slight

[7] In the late 1990s, in the build up to the dot.com bust, the NBIA documented that approximately 30 percent of incubators were for-profit. By 2002, that percentage had decreased to only 16 percent.

decrease from 2006. Incubators exclusively oriented toward manufacturing accounted for only three percent of respondents, while service oriented incubators accounted for only one percent. However, while the majority of business incubators are "mixed-use", the NBIA identified a growing trend toward incubation programs that provide at least some targeted services and/or expertise. Approximately one-third of survey respondents targeted no particular industry, while most provided services targeted toward one of a number of science and technology-based industry sectors ranging from information technology and computer software to bioscience and medical devices. More specifically, around 18 percent of surveyed programs provided targeted services to businesses in the environmental sector (including clean technology), while 15 percent targeted health-care technology and 13 percent target medical devices. Around 12 percent of surveyed programs targeted businesses in the general professional services sector, while only nine percent targeted kitchen and food-based businesses and less than one percent targeted either tourism or fashion businesses. For a more comprehensive listing, refer to **Table 1**.

As noted earlier, more than 90 percent of all incubator programs provide some type of facility for use by participants. Historically, industry experts have indicated the minimum square footage of a business incubator to be around 30,000 square feet. The idea was that the program had to bring in enough in terms of rent to sustain debt service on the facility, as well as program costs. However, in 2012, the NBIA found that 61 percent of surveyed programs occupied less than 30,000 square feet, with a median of approximately 20,000 square feet. The range among surveyed programs was from as little as 600 square feet to as much as 250,000.[8] In terms of facility utilization, most incubators dedicate 54 percent of the total floor area for use by client companies, with 22 percent dedicated to common area (e.g., restrooms, conference rooms, etc.), 15 percent for anchor tenants, and nine percent for administrative and program offices. The average number of client companies participating in an incubator program at any given time reached an all-time high in 2012 at 35. The length of time that each client spent within the incubator varied widely among the surveyed programs, with an average of 28 months, which was down from 33 months in 2006. The services made available to program participants also vary quite widely, though general assistance was widely viewed as the most important service line.[9] Other important service components include helping clients to access the funding necessary to grow their business, including making connections to angel investor networks,

[8] The NBIA report asserts that "the key to running a successful incubator – no matter the size – is to have multiple (and reliable) revenue streams and to not count on any one funding source to carry the program."

[9] Including as business basics, high speed internet access, marketing assistance, and networking activities.

Table 1: Percent of Incubation Programs Supporting Specific Industries

Industry Sector Focus	Percent of Programs Supporting Industry Sector
No Special Focus	38%
Information Technology	26%
Bioscience - Life Sciences	22%
Computer Software	18%
Energy	18%
Environmental (Including Clean Technology)	18%
Health-Care Technology	15%
Medical Devices	13%
Internet	12%
Services/Professional	12%
Mobile Applications	11%
Wireless Technology	11%
Electronics/Microelectronics	10%
Telecommunications	10%
Bioscience - Agriculture/Plant	9%
Kitchen/Food	9%
Advanced Materials	7%
Computer Hardware	7%
Media	7%
Nanotechnology	7%
Defense/Homeland Security	6%
Aerospace	4%
Healthcare Services	4%
Other	4%
Arts	3%
Construction	3%
Retail	3%
Nonprofit Organizations	2%
Wood/Forestry Technology	1%
Fashion	0.5%
Tourism	0.5%

Source: NBIA, *2010 State of the Business Incubator Industsry* , 2013.

specialized noncommercial loan programs, venture capital networks, and commercial loan programs. Services geared toward connecting businesses with specialized expertise were also identified as important, including providing linkages to strategic partners, financial management and accounting, general higher education, and technology transfer and commercialization, among others. These NBIA survey results generally correspond with best practices identified in the EDA's 2011 publication entitled *Incubating Success*, which indicates that the program attributes most highly correlated to success include 1) access to sources of capital; 2) links to educational resources; 3) networking; 4) legal services and consultation; 5) marketing assistance; and 6) assistance with identifying and training the management team.

Other important attributes of contemporary business incubator programs include the need to hire permanent, highly qualified and skilled staff, including an executive or program manager. According to the NBIA, 84 percent of surveyed programs have an executive who manages only one incubator program. The average amount of time spent by that executive on program-related business was 33 hours per week. The average incubator program has only one additional full-time equivalent staff person, in addition to the program executive. Most programs also rely on a broad network of outside service providers to provide targeted content. While a program's budget is highly correlated with success, the average revenues among business incubator programs have been on the decline, though this may be attributable to an increase in the number of newer incubators, which tend to have lower revenues. The median value of program revenues in 2012 was $292,000, while the average was notably higher at around $540,000. The median value for program expenses, by comparison, was approximately $300,000, with an average of approximately $516,600. On average 53 percent of program revenues originate from client fees, while 23 percent were from operating subsidies and 18 percent were from service contracts or grants. On the expense side, building costs accounted for 31 percent, while human resource costs accounted for 38 percent and program expenses accounted for 24 percent.

A Note about Shared Kitchen Incubators

Though not specifically called out by the NBIA literature, business incubators providing shared commercial kitchen facilities have garnered special interest in certain economic development circles, and among some vocal components of the Humboldt County community. The first kitchen incubators were initially established in the mid-1990s, corresponding to tightening food safety regulation by the U.S. Food and Drug Administration (FDA). With increasing regulation, household producers of commercial food products found it more costly and difficult to do business and were expressly prohibited from manufacturing products within the home.

According to CulinaryIncubator.com, there are approximately 525 commercial kitchen incubators located throughout the United States, with approximately 70 facilities located in California. Note, that it is not clear whether the term "incubator" is being used here in a strict sense, but may also apply to kitchen facilities that are rented out on a commercial basis, without any associated business development or educational programming. In a survey of shared kitchen facilities, one study found that the terms "shared-use kitchen," "incubator," and "accelerator" were often used interchangeably.[10] The primary

[10] Econsult Solutions, Inc. (2013). *U.S. Kitchen Incubators: An Industry Snapshot*. Philidelphia, PA: Econsult Solutions. Retrieved from: http://www.econsultsolutions.com/wp-content/uploads/2013/08/ESI-SharedKitchenReport_2013.pdf

difference between these types of uses, as more generally described earlier, is that a shared-use kitchen provides little to no supportive services, training, or resources (such as financing) to entrepreneurs.

The typical facilities provided through both shared-use kitchens and kitchen incubators generally include at least one licensed commercial kitchen space, as well as prep space, special equipment for baking and other activities (the type of equipment can vary), as well as some type of loading facilities, and both cold and dry storage. Some of the larger incubators are affiliated with universities, such as ACEnet in Ohio and the Rutgers Food Innovation Center in New Jersey. Generally, these facilities serve as a licensed site for test batch production, as well as for limited commercial production. Most true incubators include some educational component, with some programs, such as the Center for Culinary Enterprises in Philadelphia, being coupled with a robust culinary education program and associated classroom facilities. Some shared commercial kitchens are focused on helping low-income and minority residents engage in the culinary industry, though the goal of these programs is less to encourage economic growth and more to promote self-sufficiency and economic opportunity. Another more recent trend among kitchen based "incubators" and shared kitchens is an orientation toward food truck and cart commissaries. Facilities like the Food Fort in Columbus, Ohio, function as a hub for the production, storage, and distribution of food products. This not only includes food preparation and storage for food trucks and carts, but also the distribution of food products to local markets and grocery stores. The facility offers shared commercial kitchen facilities, as well as large scale bakery equipment, frozen food production space, a commercial cannery, meat and poultry processing facilities, and a cold storage warehouse.

Until recently the California Health and Safety Code prohibited the production of commercial food products in the home. On January 1st, 2013, Assembly Bill (AB) 1616 went into effect, authorizing the preparation and/or packaging of certain food products in private-home kitchens.[11] The products must be among those identified as non-potentially hazardous by the California Department of Public Health (CDPH).[12] The law is structured in such a way as to permit the CDPH to expand the list of approved products over time. The list of approved food products is divided into two tiers. Class A cottage food products are permitted for sale direct to the consumer only, while Class B products are permitted for sale direct to consumer, as well as through third-party retailers and wholesalers. All cottage food operations must be registered or permitted by their local environmental health agency, which may inspect the permitted or registered

[11] *Food Operations*. (n.d.). Retrieved from: http://www.cdph.ca.gov/programs/pages/fdbcottagefood.aspx

[12] Cottage food operations are not allowed to manufacture potentially hazardous foods, acidified foods, or low acid canned food products that would support the growth of botulism if not prepared properly.

area prior to issuing a permit or on the basis of a consumer complaint. Cottage food businesses, as defined by the law, are limited to $50,000 in sales revenue, though this threshold has increased twice since the law was enacted (from an original value of $35,000). These businesses are also limited to no more than one non-family employee. For a full list of approved products, please refer to Appendix C.

Business Accelerators

Business accelerators are a relatively new phenomenon within the economic development profession. The first recognized business accelerator, Y Combinator, was established in 2005 in Mountain View, California. As of spring 2015, Y Combinator had worked with 841 companies, valued at $2.28 billion upon exit, including well known software and internet commerce firms such as Dropbox, Airbnb, and Reddit. In its original formulation, the accelerator simply provided matchmaking between participants and capital resources, such as Sequoia Capital and angel investors Ron Conway, Paul Buchheit and Aydin Senkut. In 2011, the program began offering $150,000 in seed capital to each participant company, which was later reduced to $80,000. Under its current model, Y Combinator invests a total of $120,000 in each participant company. In exchange, the accelerator receives a seven percent equity stake.

While there is very little serious literature regarding trends in the accelerator industry, the available research indicates that the majority of existing accelerator projects are privately held, investment driven entities, which essentially replicate the Y Combinator format.[13] According to Seed-DB, a leading database of seed-level business accelerators, there are currently around 234 seed accelerators and groups operating worldwide. These programs have worked with more than 4,800 companies. Reflecting the great success of the accelerator industry at launching high-value companies, the top national accelerators are now brands unto themselves, garnering tremendous attention within the investment and high-tech startup communities. An estimated 76 percent of all venture capital funding of seed accelerators goes to graduates of the top five accelerators, including Y Combinator, Techstarts, 500startups, Angelpad, and DreamIT Ventures.[14]

While the majority of accelerator programs are geared toward the commercialization of breaking technologies, web-based services and tools, or high-value medical innovations, some recently developed accelerators are beginning to break into new industries. For example, CanopyBoulder is a

[13] Christiansen, J. (2009). *Copying Y Combinator: A Framework for Developing Seed Accelerator Programs*. Cambridge, UK: University of Cambridge, Judge Business School. Retrieved from: https://www.scribd.com/doc/19982837/Copying-Y-Combinator

[14] Christiansen, J. (2015). *Top Tier Programs*. Retrieved from: http://blog.jedchristiansen.com/category/seed-accelerators/

recently established (March 2015) seed-stage business accelerator focusing on ancillary products and services associated with the legal cannabis industry. The program provides $20,000 in seed capital to companies participating in a 12-week mentor-driven bootcamp in exchange for a 9.5 percent equity stake in each participant firm.[15] As of April 2015, CanopyBoulder and the ArcView investor group were considering replicating the CanopyBoulder model with an accelerator based in San Francisco, though no up-to-date information is currently available regarding that initiative.

Economic Gardening Programs

First conceived and applied in Littleton, Colorado, in 1987, economic gardening was a response to the downsizing of the local Martin Marietta (now Lockheed Martin) facility, which reduced its workforce by half.[16] This economic shock included the loss of 7,500 jobs and resulted in more than one million square feet of vacant real estate throughout the community.[17] Since that time, the community has doubled its employment base, and tripled its sales tax revenue, during a period when population growth totaled around 23 percent. This was accomplished without the use of incentives or tax rebates as recruitment tools.

In the decades since the establishment of the Littleton economic gardening program, Littleton's former director of business and industry affairs, Chris Gibbons, established the National Center for Economic Gardening (NCEG), which is now a leading advocacy and service organization promoting the economic gardening philosophy and techniques nationwide. The NCEG has established what it calls the National Strategic Research Team (NSRT), which includes a cadre of experts in various disciplines that provides economic gardening services remotely for a variety of communities located throughout the country.

While there are no reliable estimates available regarding the total number of communities throughout the nation that are utilizing economic gardening methods, there are at least four states that have implemented broad economic gardening programs. These include:

GrowFL - The nation's first statewide economic gardening program was GrowFL in Florida, which was established in late 2009. According to available estimates, companies participating in GrowFL generated 3,745 net new direct, indirect, and

[15] *About*. (n.d.). Retrieved from: http://www.canopyboulder.com/about/
[16] Gibbons, C. (2010). Economic Gardening. Washington, DC: International Economic Development Council. Retrieved from: http://www.hrp.org/Site/docs/ResourceLibrary/IEDC_EDJ_Gibbons-Economic_Gardening.pdf
[17] Becker, T.J. (2015). Cultivating a Green Thumb for Economic Gardening. Washington, DC: International Economic Development Council. Retrieved from: http://www.hrp.org/Site/docs/Resource Library/IEDC_EDJ_Gibbons-Economic_Gardening.pdf

induced jobs.[18] They also generated nearly $20 million in state and local tax revenue, with a total return on investment of around $758 per dollar spent.[19]

NetWork Kansas – Established in 2010, the NetWork Kansas pilot program was the first in the nation to exclusively focus on rural businesses.[20] At the end of the pilot program in early 2012, the 28 participant businesses had created 162 net new full-time positions and 41 part-time positions. They increased their collective annual revenues by more than $30.3 million. Following completion of the pilot, the State of Kansas renewed the program, which is still in operation.

Opportunity Louisiana – The economic gardening initiative hosted by Louisiana Economic Development is targeted toward second stage businesses, but defines those as companies with revenue between $600,000 and $50 million. During the program's first year (2011-2012), it worked with 91 companies, each of which added at least one job following its engagement with the program.

Pure Michigan Business Connect – The State of Michigan launched its statewide pilot program in 2012, with 51 participants. Following the end of the pilot program, a total of 32 companies responded to a survey indicating that they had collectively created 121 full-time and 16 part-time jobs. In 2013, with the second class of 90 participant companies, 60 responded to the assessment survey, indicating that they had created 289 full-time jobs and 25 part-time jobs following their engagement with the program.

Local Resources for Entrepreneurship

The greater Eureka area hosts a number of existing resources that support entrepreneurship and early-stage businesses. Below is a brief summary of those that are most relevant to this study, as well as a listing of other resources that may be leveraged in support of a new local business incubator and/or economic gardening program.

The Link

Located at 1385 8th Street in the Arcata Creamery District, the Link facility was established in 2012 by Greenway Partners as an "incubator" type shared working environment. It does not represent an incubator in the traditional sense, since the intent, according to Fawn Scheer of Greenway Partners, was to provide less formal programing and to rely on the energy and input of the people

[18] *Ibid.*
[19] *Ibid.*
[20] *Program Summary - Kansas Economic Gardening Network*. (n.d.). Retrieved from: http://www.networkkansas.com/about/network-kansas-programs/kansas-economic-gardening-network

in the building to define the direction that the effort would take.[21] As of June 2015, the facility was operating at full capacity with around 20 different organizations represented.[22] These primarily included design firms, non-profit organizations, and assorted consulting firms.[23] There are some limited shared services, conference rooms, and occasional organized mixers, though these have become less frequent. The building offers a total of around 50,000 square feet, though more than half of the space is occupied by a FedEx warehouse and a gym business. The non-warehouse users occupy around 15,000 to 20,000 square feet in total. While there is a short waiting list for the private offices, the "co-working" or common area spaces have not experienced significant demand. Scheer acknowledged that people are generally comfortable working at home, or at copy and coffee shops, but that more programing would likely help to generate more interest. Also, a brief review of the photographs provided on the Yelp.com page set up for The Link indicates that the two main common areas are perhaps not well positioned to provide a structured and professional working environment.[24]

Food Works Culinary Center

The Arcata Economic Development Corporation (AEDC) established the Foodworks Culinary Center (Foodworks) in 1992 in the Aldergrove Industrial Park at 100 Ericson Court. Originally encompassing around 20,000 square feet, the facility was designed to provide one shared community kitchen, as well as a number of smaller independent commercial kitchen units that can be leased on a longer-term basis to businesses. According to the AEDC, by its tenth year, the Foodworks operation had accommodated more than 25 food-based businesses and graduated more than a dozen to larger facilities.[25] However, in 2003 the AEDC concluded that it could no longer support the ongoing cash subsidy required to maintain the operation and the facility was sold to the City of Arcata. In 2011, the operation was expanded with the purchase of the College of the Redwoods (CR) teaching kitchens.[26]

The Foodworks facility continues to offer a number of commercial kitchens and ancillary spaces (e.g., cold and dry storage) for long-term tenancy, which range

[21] Singh, J. (2014). The Link in Arcata seeking more 'nomad members' as building looks for more people to use offices without walls. *Times-Standard*. Retrieved from: http://www.times-standard.com/general-news/20140121/the-link-in-arcata-seeking-more-nomad-members-as-building-looks-for-more-people-to-use-offices-without-walls
[22] Fawn Scheer, Greenway Partners, Personal Communication, June 3, 2015.
[23] *Membership*. (n.d.). Retrieved from: http://the-link.us/membership/
[24] *The Link*. (n.d.). Retrieved from: http://www.yelp.com/biz/the-link-arcata
[25] *Small Food Business Incubator*. (n.d.). Retrieved from: http://aedc1.org/about-aedc
[26] College of the Redwoods. (2011). City of Arcata Purchases CR Teaching Kitchens. Eureka, CA: College of the Redwoods. Retrieved from: https://www.google.com/webhp?sourceid=chrome-instant&rlz=1C1CHFX_enUS590US590&ion=1&espv=2&ie=UTF-8#q=college%20of%20the%20redwoods

in size from 185 to 1,050 square feet.[27] The community rental kitchen is available on an hourly basis ($16 per hour,[28] three hour minimum) and offers commercial grade equipment. This includes a commercial six burner range and two door convection oven, steam jacketed kettle, 32 quart mixer, stainless steel work tables, a vacuum sealing machine, and a three compartment sink.[29] The facility as a whole offers large truck delivery access, including a common-use forklift and pallet jacks, as well as a walk-in cold storage space and dry storage warehouse.[30] While Foodworks offers on-site management, the facility does not offer any business development programing.

According to David Loya with the City of Arcata,[31] the primary challenge facing the Foodworks facility is a lack of interest among tenant businesses in scaling up their businesses and relocating to other non-program related facilities. While some businesses have increased the size of the spaces they occupy within the Foodworks facility, few have made the transition to occupying their own independent facilities. There is some concern that if the City were to force these businesses to relocate, that many would simply cease operation altogether. The facility also carries a small amount of vacancy, suggesting that vacancies resulting from the relocation of existing clients may not be easily filled due to a lack of demand.

Redwood Acres

The Redwood Acres Fairgrounds were originally established in 1937. Like many fairground complexes throughout the state, the facility has struggled to identify new funding sources after California General Fund support was eliminated for the California fairs in 2011. As a way to generate revenue, Redwood Acres began leasing facilities to area businesses. Rents are structured at a below-market rate at the outset, then scaled up to market rate as the company grows.[32] The mix of existing tenants is quite broad, ranging from teas and hard cider to a BMX non-profit, a martial arts studio, and a woodworking studio. Advantages of this facility include a lack of debt service and low operating costs, which allow the facility to offer below-market rate rents. Also, the fair organization's non-profit status has allowed it to apply for grant funding to help tenants build out their spaces to better suit their needs. Cindy Bedingfield, Manager of Redwood Acres, indicated that there is a lot of interest in kitchen rentals, but that most

[27] *Foodworks Permanent Rental Kitchens*. (n.d.). Retrieved from: http://www.cityofarcata.org/departmants/community-development/foodworks-culinary-center-permanent-kitchen
[28] *Foodworks Culinary Center Rental Rate Schedule*. (July 1, 2014). Retrieved from: http://www.cityofarcata.org/sites/default/files/02_exhibit_a_rental_rate_schedule_lpo_2014.pdf
[29] *Foodworks Community Rental Kitchens*. (n.d.). Retrieved from: http://www.cityofarcata.org/departmants/community-development/foodworks-culinary-center-community-rental
[30] *Grow Your Food Business at Foodworks*. (n.d.). Retrieved from: http://www.cityofarcata.org/node/1781
[31] David Loya, City of Arcata, Personal Communication, June 2, 2015.
[32] Michelle Cartledge, Humboldt Cider Company, Personal Communication, August 18, 2015.

businesses are looking for their own exclusive facilities.[33] While most of the commercial spaces at Redwood Acres are currently under long-term lease, there are two to three buildings that are not yet being utilized to their full potential, suggesting some additional capacity.

Other Resources

In addition to the three facilities described above, the greater Eureka area hosts a wide variety of organizations that provide an assortment of services and programs that support entrepreneurship. These include, but are not limited to:

- Arcata Economic Development Corporation
- California Employment Development Department
- College of the Redwoods
- County of Humboldt Office of Education
- Eureka Economic Development Department
- Fire Arts Center
- Humboldt Area Foundation
- Humboldt County Economic Development
- Humboldt Investment Capital
- Humboldt Made
- Humboldt State University
- McLean Foundation
- North Coast Small Business Development Center
- Origin Design Lab
- Propulsion
- Redwood Region Economic Development Commission
- Redwood Technology Consortium
- The ReWorkshop
- Workforce Investment Board

[33] Cindy Bedingfield, Redwood Acres, Personal Communication, June 5, 2015.

3 Industry Target Identification

Based on contemporary economic theory, there are two scenarios under which locally grown businesses can help to expand a local economy. The first, and most straightforward scenario involves the cultivation of a business that eventually begins to export its products or services to consumers located outside of the local area, subsequently bringing dollars into the community. The alternative to this involves businesses that begin to produce goods that would otherwise be imported into the community from producers located outside the area. While these businesses may primarily serve local demand, this "*import substitution*" can help to grow the economy by facilitating retention of existing wealth. When incubators and economic gardening programs work with businesses that end up serving local demand only (absent of any form of import substitution effect), this activity does little to promote long-term economic growth and development. As a result, most programs of this type target businesses with the greatest potential to promote economic growth, sometimes limiting the resources made available to entrepreneurs pursuing less impactful business concepts.

Business incubators and economic gardening programs also typically try to target more growth oriented businesses. This is in contrast to "lifestyle entrepreneurs," who start businesses with the primary goal of simply being self-employed, rather seeking financial returns or long-term business growth. Many lifestyle entrepreneurs go into business in order to provide services and products that they are passionate about. Examples of these types of businesses often include boutique retail establishments, local service providers like dry cleaners and accountants, franchise establishments, and some independent consultants. Though some lifestyle entrepreneurs can become more growth oriented over time, growth entrepreneurs primarily start businesses with the explicit goal of achieving their maximum market potential. It is these businesses which typically offer the greatest potential for robust economic growth, which are most often the targets of business incubator, accelerator, and economic gardening programs.

Phase I – Preliminary Industry Targets

The starting point for the Analysis of Business Incubator and Economic Gardening Opportunities task of the Business Ready Study was an initial list of industry sectors of interest that the ESA team included in its proposal to the City of Eureka to conduct the Business Ready Study. These preliminary industries of interest included:

- Water-based manufacturing companies (i.e., businesses that require significant amounts of high quality water as a manufacturing input, such as brewers, food processors/food product manufacturers, and companies that use significant quantities of water as part of their manufacturing processes);

- Arts-based businesses, such as glassworks, ceramics, jewelry or specialty home décor; and
- Software/app developers or other professionals who are attracted to the North Coast lifestyle.

The first sub-task of the Business Incubator and Economic Gardening Opportunities analysis was to review background information and conduct a series of interviews with local economic development professionals, to refine the initial list and to develop a more structured list of four to six target industries for further study. As part of this first step, the ESA team reached out to a variety of local experts and ultimately interviewed individuals who represent local and regional economic development organizations, private industry, and business programs at Humboldt State University and College of the Redwoods. Please refer to Appendix D for a complete list of individuals interviewed throughout the course of this research.

Assessment of Existing Conditions and Opportunities

The following sub-section provides a brief overview of the existing and historic trends among private businesses located within the City of Eureka and Humboldt County. The analysis includes the number of business establishments located within each area by employment class, as well as the number of new businesses that were created and the number that shut down or relocated outside of the area. This section also includes a simple estimation of the potential supply of entrepreneurs located within the City of Eureka and Humboldt County.

Existing Business Dynamics

Though only limited data are available from public sources regarding existing and historic business startup and closure dynamics, a private data vendor, known as Walls & Associates, has teamed with Dun and Bradstreet (D&B) to convert archival data on local establishment characteristics into an annual time-series database. The National Establishment Time-Series (NETS) dataset is based on annual snapshots (taken in January of each year) of the D&B Duns Marketing Information (DMI) database, which provides information on more than 52.4 million establishments nationwide for the period from January 1990 to January 2012. Researchers use this data to not only identify which establishments were in operation in January of each year, but to also identify the industry in which that establishment operated, its employment class, estimated annual revenue, and a variety of other variables. The way in which these data are most often used is to identify the number of establishments in a given industry in a given year, and to gauge the rate at which establishments are created and go out of business or relocate. The remainder of this section provides a brief overview of the existing establishment level business dynamics

within Humboldt County and the City of Eureka, based on the 2012 NETS database.

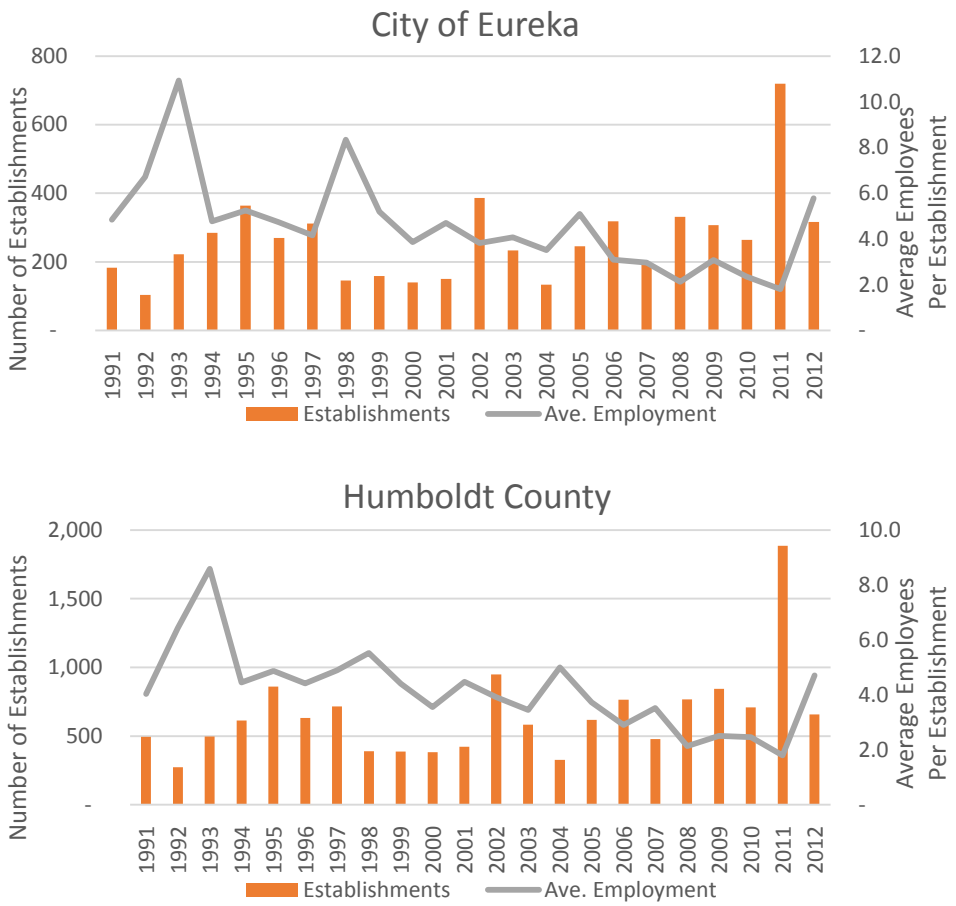
Figure 4 illustrates the percent of establishments by employment class within the City of Eureka and Humboldt County. As of 2012, the most recent year for which data are available, there were 3,798 active business establishments located within the City of Eureka and 9,397 located within all of Humboldt County. Establishments located within the City of Eureka represented approximately 40.4 percent of all establishments countywide. The City of Eureka accounted for approximately 20.0 percent of the countywide population and 21.0 percent of the countywide population of employed residents between 2011 and 2013, according to the American Community Survey (ACS). As illustrated in **Figure 5**, an estimated 79.4 percent of establishments located within the City of Eureka had five or fewer employees (including the proprietor), while 29.3 percent employed only one person other than the proprietor and 29.5 percent were self-employed establishments. Countywide an estimated 82.0 percent had five or fewer employees (including the proprietor), while 30.8 percent employed only one person other than the proprietor, and 29.5 percent were self-employed establishments. The conclusion is that the majority of establishments in both areas are small businesses and that Eureka accounts for an above average proportion of businesses within Humboldt County, relative to the City's share of countywide population.

Figure 4: Distribution of Establishments by Employment Class, 2012

Source: Walls & Associates 2012 National Establishment Time Series, 2015; BAE, 2015.

Figure 5 illustrates the volume of new business startups within the City of Eureka and Humboldt County between 1991 and 2012. These figures are based on those establishments that reported being in operation in each area in January of each year. Those businesses that were not in operation in the area during the prior year are counted as a new business. Based on these data, there were an average of 263 new business startups within the City of Eureka each year and 648 new business startups countywide. Over time, the average number of startups in a given year has fluctuated considerably; however, since around 2004, both the County and City have experienced a fairly consistent upward trend. There are also a number of notable outlier years in the data. For example, the data indicate that there were 719 business starts within the City of Eureka in 2011 and 2,885 in Humboldt County. This equals more than 270 percent of the annual average for the period from 1991 to 2012 in the City and more than 200 percent of the average from 2007 to 2012. Note that this increase in business activity is consistent across both the City and the County, but is

Figure 5: Establishment Startup Activity, 1991-2012

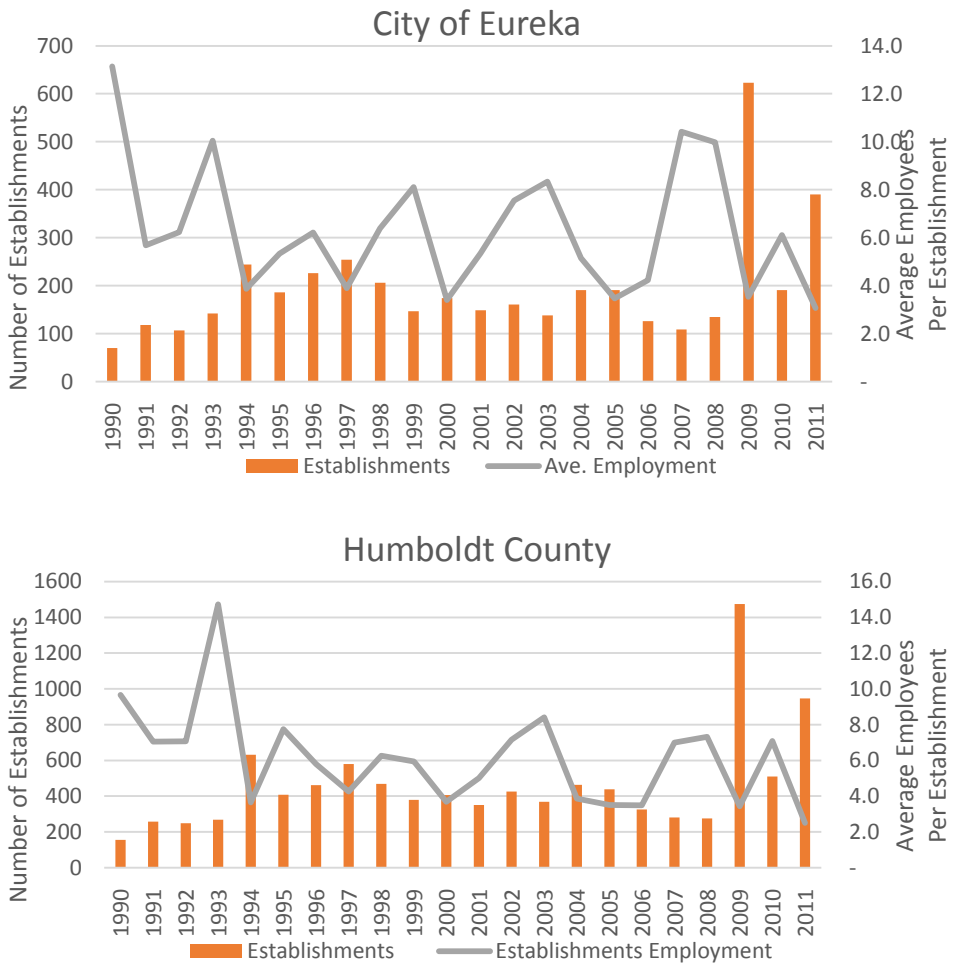


Source: Walls & Associates 2012 National Establishment Time Series, 2015; BAE, 2015.

counter cyclical to the employment trend reported by the California Employment Development Department, and should thus be interpreted with caution. Further discussion with Donald Walls of Walls & Associates, producer of the NETS database, indicates that a spike in small business start-up activity can occur during times of broad economic downturn, because individuals who are laid off by their employers often have to start their own businesses (e.g., as independent consultants or other self-employed occupations) due to the limited opportunities to secure jobs with other employers.

Figure 6 illustrates the volume of businesses that either closed or relocated to sites outside of Humboldt County between 1991 and 2012. Just like business starts, these figures are based on those establishments that reported being in operation in each area in January of each year. Those businesses that were in operation in the area during a base year but were not in operation in the following year are counted as a business closure or relocation. Based on these data, there were an average of 194 business closures within the City of Eureka each year and 460 closures countywide. These values are notably lower than the average number of business starts, corresponding with a broad increase in the total number of business establishments. The relative frequency of business closures increased significantly during the mid-1990s, but declined somewhat by the year 2000 and remained fairly stable, and relatively low, through the 2000s. Since 2009, both the City and the County have experienced rapid increases in the number of closures, with 2009 and 2011 representing clear outliers.

Figure 6: Establishment Closures and Relocation, 1991-2011



Source: Walls & Associates 2012 National Establishment Time Series, 2015; BAE, 2015.

Table 2 reports the number of establishments in each area in 2012, by major industry sector. Also reported in the table is the number of small businesses, which is defined to include those establishments with ten or fewer jobs, including the proprietor (i.e., self-employed and first stage). Also reported is the net change in the number of business establishments (i.e., startups minus closures) between 2007 and 2011, and the number of new businesses starts in 2012. According to these data, the greatest number of establishments in 2012 was concentrated in the following sectors: Construction; Retail Trade; Professional Scientific, and Technical Services; Administrative and Support and Waste Management and Remediation Services; Health Care and Social Assistance; and Other Services. Combined, these industry sectors accounted for 69.7 percent of all establishments in Eureka and 66.6 percent of all establishments in Humboldt County. These sectors also accounted for the majority of all small businesses in the area, as well

Table 2: Establishments and Startup/Closure Activity by Major Industry

City of Eureka

2-Digit NAICS	Description	2012 All Estab.	2012 Small Estab.	Start-Ups '07-'11	Closures '07-'11	Net Change	Start-Ups 2012
11	Agriculture, Forestry, Fishing and Hunting	36	36	19	12	7	2
21	Mining, Quarrying, and Oil and Gas Extraction	2	2	-	-	-	1
22	Utilities	4	3	2	4	(2)	1
23	Construction	404	386	252	137	115	54
31-33	Manufacturing	107	95	40	52	(12)	2
42	Wholesale Trade	130	112	64	68	(4)	11
44-45	Retail Trade	457	401	166	205	(39)	27
48-49	Transportation and Warehousing	55	48	27	23	4	2
51	Information	77	62	40	34	6	7
52	Finance and Insurance	167	143	69	75	(6)	20
53	Real Estate and Rental and Leasing	188	180	94	68	26	16
54	Professional, Scientific, and Technical Services	451	428	244	144	100	47
55	Management of Companies and Enterprises	9	9	3	1	2	2
56	Administrative and Support and Waste Management and Remediation Services	429	415	337	200	137	32
61	Educational Services	63	32	15	11	4	5
62	Health Care and Social Assistance	451	379	182	137	45	23
71	Arts, Entertainment, and Recreation	79	73	35	33	2	3
72	Accommodation and Food Services	151	104	30	73	(43)	2
81	Other Services (except Public Administration)	455	423	185	165	20	46
92	Public Administration	82	39	11	4	7	13
99	Unclassified Establishments	1	1	2	2	-	-
	Total, All Industries	**3,798**	**3,371**	**1,817**	**1,448**	**369**	**316**

Humboldt County

2-Digit NAICS	Description	2012 All Estab.	2012 Small Estab.	Start-Ups '07-'11	Closures '07-'11	Net Change	Start-Ups 2012
11	Agriculture, Forestry, Fishing and Hunting	325	307	135	87	48	17
21	Mining, Quarrying, and Oil and Gas Extraction	4	4	2	1	1	1
22	Utilities	31	20	4	7	(3)	2
23	Construction	1,067	1,024	701	373	328	114
31-33	Manufacturing	338	300	119	154	(35)	8
42	Wholesale Trade	347	313	178	153	25	28
44-45	Retail Trade	1,100	989	442	468	(26)	58
48-49	Transportation and Warehousing	208	186	86	79	7	8
51	Information	168	152	93	89	4	12
52	Finance and Insurance	301	264	141	132	9	29
53	Real Estate and Rental and Leasing	412	399	185	150	35	35
54	Professional, Scientific, and Technical Services	1,026	986	599	333	266	92
55	Management of Companies and Enterprises	13	13	8	5	3	2
56	Administrative and Support and Waste Management and Remediation Services	1,096	1,074	888	464	424	61
61	Educational Services	210	113	49	37	12	13
62	Health Care and Social Assistance	892	785	381	283	98	54
71	Arts, Entertainment, and Recreation	198	183	100	86	14	7
72	Accommodation and Food Services	397	276	92	180	(88)	6
81	Other Services (except Public Administration)	1,074	1,025	449	393	56	90
92	Public Administration	184	94	25	7	18	20
99	Unclassified Establishments	6	6	8	6	2	1
	Total, All Industries	**9,397**	**8,513**	**4,685**	**3,487**	**1,198**	**658**

Sources: Walls & Associates, 2012 National Establishment Time Series, 2015; BAE, 2015.

as the largest share of business startups and closures. For example, these industry sectors accounted for 75.2 percent of all business startups in Eureka between 2007 and 2011, and 68.2 percent of all business closures. Countywide, these sectors accounted for 65.7 percent of business starts and 58.2 percent of closures. The Administrative and Support and Waste Management and Remediation Services sector experienced the greatest net establishment growth

during this period, with 337 business starts and 200 closures, for a net gain of 200 new businesses. This represents a gain ratio of starts to closures of 37.1 percent. The Construction sector experienced the second greatest net establishment growth, with 252 starts and 127 closures, for a net gain of 115 new businesses, equal to a ratio of 31.2 percent. The Professional, Scientific, and Technical Services sector also experienced relatively robust growth, with a net gain of 100 new establishments and a start to closure ratio of 27.1 percent. Though the Health Care and Social Assistance sector and the Other Services sector each had more than 180 new business starts, they both experienced relatively high volumes of business closures, resulting in a net gain of 45 new businesses in the Health Care sector and 20 in Other Services. There were 166 business starts in the Retail Trade sector during this period, which was outpaced by a total of 205 business closures, resulting in a net loss of 39 establishments. Other important sectors worth noting include Manufacturing and Information. The Manufacturing sector accounted for only 2.8 percent of establishments in Eureka and 3.5 percent across all of Humboldt County. This sector saw only 40 business starts, which was offset by 52 closures, resulting in a net loss of 12 establishments. The Information sector accounted for 2.0 percent of establishments in Eureka and 1.8 percent in Humboldt County. This sector saw 40 business starts and 34 closures for a net gain of six establishments.

Local Entrepreneurial Potential

According to the available literature, approximately seven percent of the working age population in the United States is considering engaging in entrepreneurial activities and starting a new business.[34] This entrepreneurial drive resulted in the creation of around 300 new businesses for every 100,000 U.S. residents aged 16 and over in 2012, for a rate of 0.3 percent. Note that this figure includes only those businesses with paid employees and excludes sole proprietorships and the self-employed. According to the research conducted by the Ewing Marion Kauffman Foundation,[35] this rate increased slightly through 2015, to 0.31 percent in 2014, or 310 businesses per 100,000 employed residents. On a statewide basis, the business formation rate in California was among the highest in the nation in 2012, at 0.44 percent, or 440 businesses per 100,000, which declined slightly to 0.39 through 2015.

Table 3 estimates of the number of existing residents age 16 and over within the City of Eureka and Humboldt County who are likely considering establishing a new business or participating in a new entrepreneurial venture. The table also reports the number of new employer and non-employer businesses established

[34] Place Dynamics. (n.d.). *Business Incubator Feasibility Study: River Falls, Wisconsin*. Retrieved from: http://www.rfcity.org/DocumentCenter/View/794

[35] Fairlie, R. (2014). Kauffman Index of Entrepreneurial Activity: 1996-2013. Retrieved from: http://www.kauffman.org/~/media/kauffman_org/research%20reports%20and%20covers/2014/04/kiea_2014_report.pdf

within each area, as reported in the NETS database. Also reported are the business formation rates for each area, which are based on the number of new business starts in each area by employment class and the number of residents age 16 and over, as reported by the 2011-2013 ACS.

Table 3: Estimated Business Startup Potential

	Considering Entrepreneurship (a)	Starting a New Business (b)		
		Non-Employer (c)	Employer (d)	All, New
City of Eureka	1,572	138	178	316
Humboldt County	7,814	299	359	658

Notes:

(a) Assumes that seven percent of all working age residents are considering entrepreneurship or starting a business.

(b) Percent of working age residents who will start a new business in a given year:

	City of Eureka	Humboldt County
Non-Employer Business	0.61%	0.27%
Employer Business	0.79%	0.32%
Total, All Businesses	1.41%	0.59%

(c) Non-employer includes establishments with no paid employees.

(d) Includes businesses with at least one paid employee.

Sources: U.S. Census Bureau, 2011-2013 American Community Survey, 2015; Wall & Associates, 2012 National Establishment Time Series, 2015; BAE, 2015.

Based on a total of 359 new businesses startups identified in Humboldt County in 2012 and an estimated working age population of 111,629 individuals, the business formation rate in Humboldt County in 2012 was approximately 0.32 percent, which was equal to around 320 new businesses for every 100,000 working age residents. This indicates that the rate of entrepreneurship in Humboldt County is generally on par with broader national trends, if somewhat below the statewide rate. However, when including sole proprietorships and self-employed persons, the rate increases to 0.59 percent, based on a total of 658 new business establishments and 111,629 working age residents. Data for the City of Eureka indicate that there were 316 new business starts in 2012. Of those, 178 had at least one paid employee. This indicates that the new business formation rate for employer businesses in the City of Eureka was approximately 0.79 percent, while the rate for all establishments including self-employed persons was 1.41 percent. Both figures are considerably higher than the statewide and national business formation rates discussed earlier, highlighting Eureka's role as a hub for business activity throughout Humboldt County and the North Coast more broadly.

Review of Existing Economic Development Studies

This section includes a summary of key resources used to help identify potential target sectors as part of the first phase of the Business Incubator and Economic Gardening Opportunities analysis.

Prosperity 2012 and Redwood Coast Targets of Opportunity

In order to apply for investment assistance or grant funding under the Public Works or Economic Adjustment Programs of the federal EDA, planning organizations must develop a comprehensive economic development strategy (CEDS). The most recent update of the Humboldt County CEDS, also known as Prosperity 2012, was completed approximately five years ago, during a slow economic recovery period. Five parts comprise the document, which leverages research conducted for the broader Redwood Coast Region. More specifically, Part V of Prosperity 2012 includes the Redwood Coast Targets of Opportunity 2012 report, which identifies a total of nine target industry clusters which "demonstrate the greatest opportunity in new jobs, rising wages, new businesses and career possibilities for residents of this region."[36] Given that the CEDS was drafted during the early recovery period following the Great Recession, the target industry clusters reflect industry groups that appear particularly resilient in the face of contracting, or stagnant, consumer demand and a contracting natural resource sector. In some cases, these industries were relatively high growth and often had wages that were above the region-wide median. In order to be included on the list, each cluster had to satisfy six criteria, including expanding opportunity (i.e., job and/or firm growth); increasing wages; improving competitiveness (strong or growing concentration of jobs compared to California); and expanding career opportunities (a diversity of job opportunities).

An interview conducted with Jaqueline Debets, Humboldt County's Economic Development Coordinator, as part of this study indicates that these sectors remain relevant economic development opportunities for the greater Humboldt County region. Ms. Debets was a primary author of the *Targets of Opportunity* study, as was Dennis Mullins of the Employment Development Department, who was also interviewed as part of this research.

Eureka General Plan and Economic Development Strategic Plan

In November of 2013, the City of Eureka initiated a process to update its existing General Plan. As a member of the consultant team working with the City of Eureka on the General Plan Update, BAE Urban Economics (BAE) conducted research on current and historic socioeconomic trends. Section 3.3 of the General Plan Update Community Background Report summarizes a variety of

[36] The Redwood Coast Region includes Humboldt, Del Norte, Mendocino, Trinity, and Siskiyou counties. With Humboldt County being the dominant county within the region, in terms of population and economic activity, the Prosperity Plan is "Humboldt-centric".

economic data regarding labor force and employment trends by major industry sector, as does the *Economic Development Policy Paper*, prepared as part of the General Plan Update process. These documents also broadly discuss opportunities for growth and development in a variety of key industries. Below is a brief summary of the findings outlined in the General Plan Update *Community Background Report*, *Economic Development Policy Paper*, and the *Economic Development Strategic Plan*.

Natural Resources and Manufacturing

Eureka's industrial land uses include a variety of development types, but were historically focused on a combination of resource-based activities, included timber processing, commercial fishing, and related infrastructure. Access to the Port of Humboldt Bay provided a convenient and cost effective method for transporting bulk commodities. Though the volume of raw and lightly processed materials exported from the region declined considerably over the past few decades, the region maintains a distinct competitive advantage in the export of some higher quality raw materials and value added products. For example, the availability of high quality redwood, and other timber resources that are in relative short supply elsewhere in the state and the nation provides opportunities for a restructuring of the forest products industry toward wood-based high-end manufacturing, in addition to the ongoing production of bulk raw materials. While the employment impacts of such a restructuring likely would not fully offset the job losses of past decades, this would help to preserve a historically important industry that continues to maintain an important competitive advantage.[37]

Data regarding commercial fish landings in the Humboldt Bay area reveal similar trends, with a high degree of volatility in the industry, and a broad reduction in fish landings. Despite this, the presence of Humboldt Bay offers distinct opportunities to preserve the industry, which contributes to raw industrial output, creates value added manufacturing opportunities (e.g., fish canning and processing), and represents an important tourism amenity. Advancements in aquaculture and aquaponics also offer important opportunities to leverage Humboldt Bay as a strategic resource, though some businesses may need assistance locating sites and establishing sustainable operations. Though not active within the City of Eureka itself, Humboldt County and the North Coast Region feature a robust agricultural industry. This, combined with the presence of an established commercial fishing industry creates opportunities for value added food products manufacturing. Without robust solutions for overcoming the existing barriers to efficient goods movement, these industries will be limited to

[37] Humboldt County is the top grossing timber harvesting county in California. The industry harvested 244,697 thousand board feet (MBF) of timber, worth $81.5 million, in 2014, according to the California State Board of Equalization.

smaller scale production, oriented toward local consumption and high value niches, when distance to market increases.

Healthcare, Government, and Professional Services

The City of Eureka functions as a hub for a variety of office-based industries on the North Coast, including government, healthcare, finance and real estate, and professional services. As the county seat, the City functions as a government center, attracting a number of ancillary industries. For example, the Humboldt County Recorder's office makes Eureka a logical location for mortgage title companies. As a major population center, the City is a prime location for financial institutions and professional and business services establishments. Eureka also functions as a central point of access for health care services on the North Coast. For example, St. Joseph Hospital, which is the largest acute care medical facility on the northern California coast, serves the city and the surrounding region. The hospital system employs roughly 1,400 individuals between two campuses, making it one of the largest employers in Humboldt County. As such, the hospital has attracted a cluster of clinics and medical specialists, who provide services to residents of Humboldt County and the broader North Coast Region.

Preliminary Industry Targets Recommended for Phase II Assessment

Based on the research conducted during Phase I of this study, the ESA team recommended the following six industry clusters for consideration as part of a Phase II assessment:

- Diversified Health Care
- Specialty Agriculture, Food and Beverage Products
- Building and Systems Construction and Maintenance
- Investment Support Services
- Niche Manufacturing
- Management and Innovation Services

These industry clusters, as defined in the *Redwood Coast 2012 Targets of Opportunity* report, encompass the business types originally identified in the ESA team's proposal to the City for this study, plus additional regional opportunity sectors that appear to fit well with Eureka's local assets. In the Phase II assessment that follows, these sectors are further analyzed and specific sub-sectors are recommended for further consideration for incubator and economic gardening opportunities.

Phase II –Screening for Priority Incubation Targets

The following section of this report describes the results of a secondary screening of the preliminary industry cluster targets identified in Phase I of this study. The ESA team conducted this screening first on the basis of an

assessment of the characteristics of the businesses in each sector, their fit with Eureka's assets, and whether businesses in these sectors would lend themselves to locating in a place-based incubator facility. Then, for those sectors that showed initial promise, the ESA team conducted more fine-grained analysis of the business types included within each industry cluster, and the business activity that has recently occurred in these sub-sectors, including historic business startup and closure activity, as reported in the NETS database. The objective of this phase of the study was to identify specific industry sub-sectors that the ESA team could recommend for further analysis of business incubator and economic gardening opportunities in the City of Eureka, in Phase III of this study.

Step 1: Screening of Industry Clusters for Further Consideration

The following sub-section describes the ESA team's rationale for recommending or excluding certain industry clusters from the list of six identified in Phase I from further evaluation.

Diversified Health Care

On a regional scale, the Diversified Health Care industry cluster was the largest of those opportunity areas identified in the *Targets of Opportunity* report. The cluster is anchored by hospital-centered activities such as general medical and surgical hospitals and physicians' offices, but is supplemented by a diversity of associated services, ranging from outpatient care centers, to home and residential health care services, and alternative care providers. Among the region's key assets in this industry cluster are St. Joseph Hospital and Open Door Community Health Centers. The industry is relatively profitable and well supported by existing nursing and health care occupational programs at CR and the health and kinesiology programs at Humboldt State University (HSU). Challenges faced by this industry cluster are generally characterized by difficulties with the recruitment and retention of qualified physicians and support staff and a perceived disconnect between mainstream healthcare providers and other complementary and alternative healthcare providers. Most prospective entrepreneurs in this field are established practitioners and have a considerable network of physicians and other professional service providers with whom to partner. While there are established business incubators in other regions targeting healthcare oriented startups, these are typically oriented toward high-tech innovations, rather than medical services. For these reasons, the ESA team did not recommend that the City of Eureka target this sector for business incubation. However, this cluster could benefit from more general forms of business assistance and possibly economic gardening. For example, the adopted City of Eureka Economic Development Strategic Plan includes two actions directing the City to engage in a dialogue to identify industry expansion and infrastructure needs and to initiate a process to create a market development plan for destination health care services. In addition, the Open

Door Community Health Centers have shown interest in possible expansions, both within and outside the region. Businesses such as the Open Door Health Centers could likely benefit from the availability of information, such as that provided through an economic gardening program.

Specialty Agriculture, Food and Beverage Products

This industry cluster includes the front-end suppliers/producers of agricultural products (e.g., livestock operations, fisheries, flower nurseries, etc.), as well as value added food product manufacturers. Recognized specialty food and beverage products originating in the region include specialty meats and cheeses, assorted seafood products (e.g., oysters, fish, etc.), and alcoholic beverages (e.g., beer and wine), among others. While agricultural crop and animal production and related manufacturing comprise more than half of the total employment in the sector, beverage manufacturing represents the single largest employment sector, while dairy product manufacturing and animal processing represent relatively small, but rapidly expanding, sub-sectors. Since virtually no conventional agricultural cultivation occurs within the City of Eureka, any incubator or economic gardening programs should primarily target value added food product manufacturers.[38] In addition, key informants indicated that with the recent legalization of cannabis in states like Colorado and Washington, the North Coast region is well positioned for growth in cannabis related product manufacturing.[39] Though the primary challenge faced by the food and beverage products manufacturing cluster is the considerable cost of accessing markets outside the region, one additional issue identified in the *Targets of Opportunity* report was the need for shared equipment and production space, like commercial kitchens, refrigeration, aggregation, and distribution facilities. Prior to 2013, when the *Targets of Opportunity* report was published, the City of Arcata established Foodworks, while additional commercial kitchen space is also available at Redwood Acres in Eureka.

The background planning and economic development reports identify a need for additional businesses assistance and possible economic gardening activities, which was confirmed through key informant interviews. Possible actions include pre-permitting for bay and onshore aquaculture sites, development of a co-

[38] While the City does host an active fishing fleet and some aquaculture activities, key informant interviews indicate that these operations are run by individuals with considerable expertise and industry experience, indicating that these operations would not benefit considerably from business incubation activities.

[39] With the existing underground industry in Humboldt County producing upwards of one billion dollars' worth of product in 2010, and contributing an estimated $415 million in taxable sales, there is a significant potential to develop upon the region's existing competitive advantage with the cultivation of additional value added businesses. The City of Arcata is already embracing this potential with the creation of a "Medical Marijuana Innovation Overlay Zone." This area would include the former Humboldt Flakeboard site, which could soon accommodate a proposed 10,000 square foot facility featuring cannabis research and development, as well as production and storage.

packing facility, and mobile processing/packaging facilities. Given the sheer diversity present within this industry cluster, the expressed need for processing and distribution facilities, and the region's demonstrated success in developing small- to medium-sized value added food products manufacturers (e.g., Lost Cost Brewery, Bien Padre Foods, Dick Taylor Craft Chocolate, etc.), the specialty food and beverage industry cluster represents a grouping of industries that could benefit from business assistance and economic gardening programs. The ESA team recommended this sector for further evaluation, to determine if one or more of its constituent sub-sectors could be a good candidate for business incubator and/or economic gardening activities.

Building Systems Construction and Maintenance

This sector primarily facilitates the development of residential and commercial structures, as well as roadways, utility systems, and other infrastructure components. This industry cluster is primarily characterized by larger building material and supply dealers, as well as lawn and garden equipment and supply dealers, who provide goods on both wholesale and retail basis to small, often independent, contractors and property owners. Research conducted for the City of Eureka General Plan Update indicated that independent construction contractors are a primary user of small-scale industrial and flex oriented real estate within the City of Eureka. This industry cluster is highly cyclical and is heavily bifurcated between the large suppliers (who benefit from significant barriers to entry for new competitive firms) and small independent contractors (who face fewer barriers to entry). Key challenges faced by this industry cluster include the cyclical nature of demand for new construction, a limited local market due to modest regional population and employment growth, and a lack of qualified labor. Individuals interested in entering into the construction industry as small business owners require access to flex and small industrial spaces. Some may also benefit from shared equipment, though equipment rental services are already available through existing businesses that serve the area. Due to the relatively low growth anticipated in this industry cluster, as well as the low barriers to entry and availability of existing resources through the SBDC and other outlets, the ESA team did not recommend this industry cluster for further evaluation in this study.

Investment Support Services

The Investment Support Services industry cluster includes professional service providers, such as mortgage brokerage firms, investment advisors, financial institutions, commodities and securities brokers, real estate agents, accountants and bookkeepers, and tax preparation specialists, among others. Locally, real estate service providers are the second largest employer in this cluster. Establishments in this cluster are primarily office-based, require few hard inputs or ancillary services, and can easily operate at varying sizes. Key issues in this cluster include a limited pool of talented professionals, many of whom are

reaching retirement age, and a lack of business succession planning. Strategies recommended for development of the Investment Support Services cluster include the identification of alternative funding sources for business startup, addressing a lack of access to business support services (e.g., lawyers, CPAs, etc.), and upgraded infrastructure (e.g., broadband, air service, etc.) to reduce cost and improve access. Because these businesses are primarily knowledge-based, the upfront barriers to entry for individuals who already possess the necessary skills, knowledge, and education are relatively small, primarily consisting of the need to purchase necessary computer equipment. While some in this industry cluster are working successfully out of their own homes, most need appropriate commercial office space. While this may take the form of a single office or suite, expansion may require the construction of new higher quality office space or the renovation of existing spaces, which can be at considerable cost. Overall, these businesses are relatively well served by the existing inventory of available office space and associated infrastructure, as well as available business development services. As a result, the ESA team did not recommend this sector for further study.

Niche Manufacturing

The Niche Manufacturing cluster includes a variety of relatively small, but highly specialized, product manufacturers that are spread across more than twenty industry sectors. This cluster is the smallest identified in the *Targets of Opportunity* report, with no individual industry sector providing more than a few hundred jobs throughout the entire region, though it is also one of the fastest growing. There are a number of important sub-groupings associated with this cluster that include related skills and processes. These include producers of metal and machinery products; producers of plastics and glass, as well as paint, coatings, and adhesives; and other miscellaneous manufacturers, such as those making jewelry, sporting goods, games, office supplies, musical instruments, and other assorted products. Key informants showed particular interest in cultivating segments of this cluster that leverage unique regional advantages and specializations, such as specialty wood products, arts-based products, and manufactured products that require large volumes of water (which is in comparatively abundant supply within the region). This cluster is highly entrepreneurial and innovative, due at least in part, to strong relationships between producers.

Production among the larger scale niche manufacturers is driven more by national and global markets, with most producers maintaining a high degree of specialization that permits them to compete successfully from within the relative isolation of the North Coast. Facing considerable distances to major consumer markets, and sub-optimal transportation infrastructure, informants described that the most competitive and profitable locally produced products are relatively light and/or compact, which minimizes the impact of transportation costs, and are

marketed based on their premium quality. As identified in the *Targets of Opportunity* report, "as companies grow, they tend to move their heavier, transportation-dependent manufacturing out of the region and keep the design, marketing and custom manufacturing here." Key challenges in this cluster include transportation, workforce availability, access to short-term capital, information sharing, and access to effective sales and marketing tools. Among a variety of recommendations for developing the cluster, the report identifies improved peer-to-peer communication, cross promotion, and regional branding and marketing as important strategic objectives. Given the diversity and structure of this industry cluster, as well as the region's relative success in establishing and growing small scale niche manufacturers, the ESA team recommended this sector as a candidate for further study of business incubation and economic gardening opportunities.

Management and Innovation Services

This industry cluster represents a grouping of industries providing professional services that help businesses design and market new products and innovations. This includes specialized engineering and design services, scientific and technical consulting, and research and development services. This cluster also includes important technical business support services, such as telecommunications and information technology. Although this cluster was the fifth largest identified in the *Targets of Opportunity* report, it was also the fastest growing. Architectural, engineering and specialized design services, computer systems design, scientific and technical consulting services, scientific research and development, and other professional and technical services comprise the majority of this industry cluster. Key informant interviews also highlighted interest in business incubation activities associated with software and application development, as well as other computer systems-based services. While currently underrepresented in the greater Eureka area, the barriers to entry into this field are relatively low and often include only a computer, broadband access, and a place to work. Key issues facing this industry cluster include limited access to a qualified workforce, regulatory complexity, and access to broader markets. Recommended strategies for the expansion of this cluster include ensuring access to reliable and affordable telecommunications, broadband, and transportation services (e.g., commercial air service), providing low-cost opportunities to lease office space, providing targeted business development services, encouraging mutually beneficial collaboration between local firms, and encouraging a better understanding of the various firms and industries within the cluster and their interconnections. Subsequently, the ESA team recommended this industry cluster for further study for business incubation, including the provision of a shared or collaborative office environment that facilitates networking among businesses, provides high-speed internet access and reliable telecommunications services, along with the possibility of offering shared technical equipment or laboratory space.

Step 2: Sub-Sector Refinement

After identifying the three broad industry clusters that appeared most appropriate for potential incubation and economic gardening in Eureka (Food and Beverage, Niche Manufacturing, and Management and Innovation Services) the ESA team utilized the NETS database to drill down and identify which clusters and/or industry sub-sectors show the greatest promise for business incubation and economic gardening activities centered in Eureka. Those sectors were the focus of an additional round of research and analysis in Phase III of this research.

To further evaluate sub-sector business activity within the Food and Beverage, Niche Manufacturing, and Management and Innovation Services industry clusters, the ESA team analyzed the NETS database for the businesses with North American Industry Classification System (NAICS) codes that match with the cluster definitions provided in the Redwood Coast Target of Opportunity 2012 report, and then analyzed the business activity within those sub-sectors. In some cases, the ESA team identified establishments in NAICS categories that could be considered part of the identified cluster, but whose NAICS identification code was not explicitly identified in the Targets of Opportunity report. In these cases, the ESA team included all NAICS categories that met the general description of each cluster. The ESA team did, however, exclude some NAICS categories deemed not relevant for the purposes of evaluating the potential opportunities for creation of a business incubator or economic gardening program. In particular, these included retail and wholesale establishments, with some exceptions. For additional details regarding the composition of each industry cluster, as defined for this analysis, please refer to Appendix E.

Food and Beverage Products Sector Refinement

As reported in **Table 4**, there were 22 business establishments operating in the City of Eureka in 2012 that fell into the Food and Beverage Products industry cluster. These establishments accounted for 0.8 percent of all business establishments in the City of Eureka. According to the NETS data, more than two thirds of the establishments in this industry cluster had 10 or fewer employees in 2012, while about one in five were sole proprietorships. Between 2007 and 2011, there were a total of seven new business starts and five business closures in this cluster, indicating significant turnover. This activity resulted in a net gain of only two new establishments. This represents total growth of 10.0 percent, or 2.4 percent per year. The countywide Food and Beverage Products industry cluster included 65 establishments, accounting for around 0.7 percent of all business establishments in Humboldt County, as shown in **Table 5**. Only two in 10 establishments in this cluster had more than 10 employees in 2012, while nearly one in four were sole proprietorships. The cluster saw a total of 19 business starts countywide between 2007 and 2011, with 23 closures for a net loss of four establishments.

Table 4: Food and Beverage Products, City of Eureka

Description	Establish. 2012, All	Small Business	Startup '07-'11	Closures 07-'11	Net Change	Starts 2012
Seafood and Aquaculture	5	4	1	0	1	0
Value Added Food	13	10	6	5	1	1
Beverage Products	4	1	0	0	0	0
Total, Food and	**22**	**15**	**7**	**5**	**2**	**1**

Sources: Walls & Associates, 2012 National Establishment Time Series, 2015; BAE, 2015.

Table 5: Food and Beverage Products, Humboldt County

Description	Establish. 2012, All	Small Business	Startup '07-'11	Closures 07-'11	Net Change	Starts 2012
Seafood and Aquaculture	12	11	2	2	0	0
Pet and Animal Feed	3	3	0	0	0	0
Value Added Food	39	31	15	14	1	1
Beverage Products	11	8	2	7	-5	0
Total, Food and Beverage	**65**	**53**	**19**	**23**	**-4**	**1**

Sources: Walls & Associates, 2012 National Establishment Time Series, 2015; BAE, 2015.

At the individual industry level, the cluster is largely dominated by establishments participating in the value added food products manufacturing subgroup. In turn, a very large portion of this sub-sector (40.9 percent in 2012) was retail bakery establishments.[40] Though there was a relatively high degree of business startup activity among retail bakeries (i.e., six new business starts and five closures), the local retail orientation of these businesses and the need for baking facilities that cannot be easily shared makes this subcategory of manufacturing an impractical target for business incubation. Excluding these establishments leaves only four businesses participating in value added food products manufacturing subgroup. These include coffee and tea products, specialty canning, animal slaughtering, and confectionery manufacturing. All four businesses were well established, having operated in Eureka for a minimum of 18 years or more. Data for the county as a whole indicate similar trends and industry characteristics.

The two other industry subgroups included in this cluster include seafood and aquaculture products and beverage products. The seafood and aquaculture products subgroup contained a total of five business establishments that are based in Eureka.[41] These included fish hatcheries, shellfish fisherman, seafood

[40] Retail Bakeries (NAICS 311811) are categorized as manufacturing, rather than as retail or wholesale

[41] Note that this excludes establishments that report a site location outside of Eureka and Humboldt County. This can occur when businesses report to D&B based on their corporate headquarters location. In these cases, the NETS data indicate that the business operated in Humboldt County, but does not indicate where and may even indicate a site address located outside of the county and/or state. This, however, does not significantly impact this analysis, since the focus is primarily on small independent businesses that would be the most likely to benefit from incubation. The types of businesses excluded in this way are primarily large corporate branch facilities.

canning operations, and both fresh and frozen seafood processing establishments. Nearly all of these establishments were small businesses with fewer than 10 employees, including proprietors. This subgroup saw only one startup between 2007 and 2011, with no business closures. The beverage products subgroup, by comparison, contained only four establishments, two of which produced soft drinks, and two breweries. Only one of these establishments was categorized as a small business. There were no reported business starts or closures in this category between 2007 and 2012. Available data indicate similar characteristics for this industry subgroup at the countywide level.

The above data analysis, combined with information culled from Phase I interviews with local economic development professionals did not initially encourage the ESA team to recommend the Food and Beverage Products industry cluster for further consideration as part of this study. This was primarily based on the small number of establishments categorized within this industry cluster, the relatively low levels of business startup activity identified through a review of the NETS database, and the fact that there are existing facilities that are attempting nurture businesses in the Food and Beverage Products industry cluster. City of Arcata staff indicate that the Foodworks facility is operating at a fairly stabilized occupancy, with periodic turnover, but no excessive vacancies; however, the facility did have an approximately 1,000 square foot space that was vacant for about a year, with no tenant interest until recently. Further, the facility does not have a waiting list of businesses interested in other spaces that may become available. Foodworks also makes one of their five commercial kitchen spaces available for shared, short-term use, with a reasonable amount of availability. Staff from Redwood Acres indicated that they have two to three buildings that are not yet being used to their full potential, and which could be used for further food-related businesses or for expansion of existing tenants, and that Redwood Acres is also considering creation of a facility to serve as a home base for food trucks. In addition, the City of Eureka is currently focusing resources on the Cold Storage Feasibility Study, which would potentially lead to the development of additional infrastructure to support the local food industry.

While this industry cluster is relatively visible within the greater Eureka community – with businesses like the North Coast Brewery and Dick Taylor Craft Chocolate, among others – the data indicate that the business start-up activity in this industry cluster is not sufficient to support a stand-alone business incubation facility. Existing small businesses and prospective food and beverage entrepreneurs are comparatively well- served by the services and facilities currently available at Redwood Acres, Foodworks, and other commercial kitchens that are available in local churches, grange halls, and other facilities that are accessible to local entrepreneurs. As discussed previously, there is a potential that Redwood Acres will expand its facilities catering to start-up food

businesses. Nonetheless, due to the considerable interest expressed within the community with regard to expansion within the Food and Beverage Products sector, the ESA team decided that this this cluster warranted additional evaluation in Phase III of this study.

Niche Manufacturing Sector Refinement

As reported in **Table 6**, there were a total of 88 manufacturing oriented establishments operating in the City of Eureka in 2012. These establishments accounted for 2.3 percent of all business establishments in the City. Corresponding with the prevalence of small businesses in Humboldt County, 94.3 percent of all establishments in this industry cluster were categorized as small businesses, while 28 percent were sole proprietorships and 31 percent employed only one person other than the proprietor. Between 2007 and 2011, the cluster saw 28 new business starts and 23 business closures, resulting in a net gain of only five new establishments. Due to this turnover, the cluster as a whole grew by only six percent, or around 1.5 percent per year. As indicated in **Table 7**, the countywide industry cluster exhibited similar trends, with 96 startups and 109 closures, resulting in a net loss of 13 establishments. This generally corresponds with a broad national contraction in the manufacturing sector that has been underway for some time. However, it may also provide an opportunity to provide strategic business development support that can help the region's manufacturing sector make the switch from more commodity oriented, high volume products to more high value and niche products.

To facilitate additional analysis, the ESA team divided the Niche Manufacturing cluster into eleven subgroups. These include Textile and Fashion Products; Wood and Paper Products; Plastic and Chemical Products; Glass and Ceramic Products; Concrete and Cut Stone Products; Metal Products; Machinery and Power Tools; Appliances and Electrical Equipment; Motor Vehicles, Aircraft, and Boats; Surgical and Dental Equipment; and Arts and Culture Based Products. While the majority of these subgroups are relatively small, with little to no startup activity, there are two that are worth more in-depth discussion. These include Wood and Paper Products and Arts and Culture Based Products.

As shown in Table 6, in the City of Eureka, the Wood and Paper Products sub-sector included a total of 20 establishments in 2012, all but two of which were small businesses. The majority of the establishments in this sub-sector are concentrated in Wood Kitchen Cabinet and Countertop Manufacturing and Wood Window and Door Manufacturing categories. Though there is a notable concentration of establishments in the Quick Printing category as well, this sub-sector is characterized by establishments like FedEx Office and other more retail oriented operations. The Wood Kitchen Cabinet and Countertop Manufacturing sub-sector, by comparison, primarily includes local custom cabinetry shops, such as Forbes Scott Cabinets, Humboldt Bay Design Group, Counter Creations, and

Table 6: Niche Manufacturing, City of Eureka

Description	Establish. 2012, All	Small Business	Startup '07-'11	Closures 07-'11	Net Change	Starts 2012
Textile and Fashion Products	7	7	2	3	-1	1
Wood and Paper Products	20	18	8	9	-1	0
Plastic and Chemical Products	3	2	0	1	-1	0
Glass and Ceramic Products	7	7	1	0	1	0
Concrete and Cut Stone	5	4	0	0	0	0
Metal Products	3	3	1	1	0	0
Machinery and Power Tools	8	8	2	1	1	0
Appliances and Electrical Equipment	7	7	3	0	3	0
Motor Vehicles, Aircraft, and Boats	2	2	0	1	-1	0
Surgical and Dental Equipment	10	9	2	1	1	0
Arts and Culture Products	16	16	9	6	3	0
Total, Niche Manufacturing	**88**	**83**	**28**	**23**	**5**	**1**

Sources: Walls & Associates, 2012 National Establishment Time Series, 2015; BAE, 2015.

Table 7: Niche Manufacturing, Humboldt County

Description	Establish. 2012, All	Small Business	Startup '07-'11	Closures 07-'11	Net Change	Starts 2012
Textile and Fashion Products	23	21	7	8	-1	1
Wood and Paper Products	75	66	24	40	-16	1
Plastic and Chemical Products	15	10	4	4	0	1
Glass and Ceramic Products	15	14	4	9	-5	0
Medicinal and Pharmaceutical	2	2	2	1	1	0
Concrete and Cut Stone	8	7	4	2	2	0
Metal Products	21	21	6	8	-2	1
Machinery and Power Tools	24	22	7	6	1	0
Appliances and Electrical Equipment	18	15	6	5	1	0
Motor Vehicles, Aircraft, and Boats	6	5	1	1	0	0
Non-Wood Furniture and Furnishings	3	3	0	0	0	0
Surgical and Dental Equipment	18	17	5	3	2	1
Arts and Culture Products	52	51	26	22	4	2
Total, Niche Manufacturing	**280**	**254**	**96**	**109**	**-13**	**7**

Sources: Walls & Associates, 2012 National Establishment Time Series, 2015; BAE, 2015.

D&G Wood and Cabinet Shop, among others. This sub-sector contained only seven establishments, with two startups and two closures. The Wood Window and Door Manufacturing sub-sector included only three establishments in 2012, though the sector saw five startups and three closures between 2007 and 2011. The existing businesses in these sub-sectors appear to be mainly oriented towards local construction and remodeling services, indicating limited export-oriented economic development activity.

Arts and Culture Based Products represents another sub-sector of interest within this cluster. This sub-sector included a total of 16 establishments in 2012, all of which were small businesses. The sub-sector is characterized by a wide variety of establishment types, ranging from jewelers, sporting and athletic goods manufacturers, sign makers, musical instrument manufacturers, and other producers of goods that are closely tied to local arts and culture. Between 2007 and 2011 this subgroup saw nine new business starts, combined with six

closures, resulting in a net gain of three new businesses. While this is likely to be a slow growth sector, the turnover apparent in the NETS data indicates that businesses in this group could benefit from additional business development support; however, the small volume of start-up activity in this sector is likely not sufficient to support a business incubator facility.

Cannabis Products

Given the large contribution of cannabis trade to the local economy,[42] most of which is not reflected in the NETS data, along with a national trend towards liberalization of laws governing cannabis products, cannabis-related business activity is a sub-sector of interest for Eureka, as well as the broader Humboldt County area. At the same time, given the current legal status of the cannabis industry and the underground nature of much of the current activity, it is difficult to quantitatively assess the market for a local cannabis products business incubator facility. However, with robust industry growth occurring in places like Colorado that are steps ahead of California on cannabis liberalization, and near-term prospects for further liberalization of laws governing cannabis use in California, there is considerable interest in entrepreneurial ventures that leverage the revised legal status of cannabis products. For example, one recent article published by the Huffington Post cites estimates provided by the ArcView Group, a cannabis industry investment and research firm based in Oakland, which estimates the value of the legal cannabis industry at approximately $2.7 billion nationwide.[43] This value represents a 74 percent increase over 2013 which, if correct, would make the legal cannabis industry the fastest growing industry in the nation. Projections for 2015 indicate that the industry could experience growth of at least 32 percent, while medium-term projections suggest that the national legal cannabis industry could grow to $11 billion by 2019. Although cannabis is not yet legalized for recreational use in this state, California represents the largest overall market for legal cannabis in the United States, with the legal medical marijuana industry valued at approximately $1.3 billion. More importantly, from a near-term perspective, the federal prohibitions on cannabis-related activities have not prevented robust investment and innovation in the industry. This is true in states with only medical use laws, as well as in states where recreational use is legally permitted.

In the future, the Humboldt County cannabis industry's market recognition and existing industry expertise may provide a unique competitive advantage to firms

[42] Greenson, T. (2011). Humboldt's $400 Million Question: Banking Thesis Quantifies Impact of Pot on Local Economy. *Times-Standard.* Retrieved from: http://www.times-standard.com/20111204/humboldts-400-million-question-banking-thesis-quantifies-impact-of-pot-on-local-economy

[43] ArcView Market Research. The State of Legal Marijuana Markets. (3rd) Retrieved from: http://static1.squarespace.com/static/526ec118e4b06297128d29a9/t/5510691ce4b0c289fce7364c/1427138844195/Executive+Summary+-+The+State+of+Legal+Marijuana+Markets+-+3rd+Edition.pdf

locating in the Eureka and Humboldt County areas, seeking to capitalize on liberalized cannabis regulation. Though it is difficult to assess the reliability of these figures, estimates produced by Jennifer Budwig indicate that the value of production from the existing underground cannabis industry in Humboldt County was worth on the order of $1 billion dollars in 2010.[44] Assuming that this estimate is reliable, there is likely sufficient cannabis-related activity within the Humboldt County market to support numerous legal cannabis related businesses, with the potential for this to grow significantly, if California cannabis laws are liberalized in the coming years.

Like many communities throughout the American West, the City of Arcata has already recognized the opportunities that the legal medical and recreational cannabis industry may create for economic development. In July 2015, the City of Arcata Planning Commission recommended approval of the creation of a "Medical Marijuana Innovation Overlay Zone," which would permit the establishment of cannabis-related businesses on the site of the old Humboldt Flakeboard plant. The prospective development, if approved and completed, could include a 10,000 square foot building that would include an industrial grade kitchen, testing laboratories, cultivation areas and warehouse space, along with necessary processing and/or manufacturing areas. Space within the facility would subsequently be leased out to cannabis-related businesses, though activities would be limited to medical cannabis product development and production only.

Arcata is not the only municipality considering ways to develop the legal cannabis industry. For example, the ArcView Group and the CanopyBoulder Business Accelerator are currently collaborating toward the development of a new "canna-business" incubator in San Francisco. Meanwhile entrepreneurs in Denver have established a variety of support services for cannabis entrepreneurs. For example, the CanopyBoulder Business Accelerator offers a wide variety of services ranging from a 13-week intensive business development program, to seed-stage investment support, and ongoing business mentor program, among other services. The program is operated in cooperation with the University of Colorado Boulder and focuses on industry specific skills and industry knowledge. In addition, entrepreneurs in downtown Denver recently established a facility known as Green Labs, a co-working space and business incubator for cannabis-related startups. The program provides high quality office space for lease, coupled with investment and legal services, and business development and strategy advising, as well as technical support.

[44] Greenson, T. (2011). Humboldt's $400 million question; banking thesis quantifies impact of pot on local economy. *Times-Standard.* Retrieved from: http://www.times-standard.com/20111204/humboldts-400-million-question-banking-thesis-quantifies-impact-of-pot-on-local-economy

The ESA team recommended cannabis products manufacturing (and other related industry activities) as a targeted sub-sector for further analysis of business incubator and economic gardening opportunities in Phase III of this study. This is based on the following considerations:

- Large established cannabis industry activity in the area with strong "brand" recognition;
- Potential growth in the cannabis industry due to liberalization of regulations; and
- Cannabis products would represent low weight, high value export products that are not overly impacted by the local transportation constraints.

Management and Innovation Services Sector Refinement

As reported in **Table 8**, there were a total of 332 establishments operating in the City of Eureka in 2012 that fell into the Management and Innovation Services industry cluster. These establishments accounted for 8.7 percent of all business establishments in the City. According to the NETS database, 94.9 percent of all establishments in this industry cluster had 10 or fewer employees in 2012, while 53.0 percent were sole proprietorships. Between 2007 and 2011 the cluster saw 209 new business starts and 107 business closures. The result was a net gain of 102 new business establishments, which represents 44 percent growth over the five year period, equal to around 9.6 percent per year. As of 2012, there were a total of 38 new business starts in this cluster in the City of Eureka, though no data are available regarding business closures that occurred in 2012. The available data indicate that this industry cluster experienced similar trends at the county level. For example, there were a total of 853 establishments operating in this cluster countywide as of 2012, as indicated in **Table 9**. The cluster accounted for around 9.1 percent of all establishments countywide. Only one in 10 establishments in this cluster had more than 10 employees, while 56.0 percent were sole proprietorships. Between 2007 and 2011 the industry saw a total of 554 new business starts and 293 closures, resulting in a net gain of 261 business establishments. As of 2012, the industry gained an additional 83 new establishments, though no data are currently available to regarding closures in that year.

To facilitate additional analysis, the ESA team divided the Management and Innovation cluster into seven sub-sectors. These included Architecture, Engineering, and Design; Research and Development; Computer Systems and Software; Media Production; Telecommunications; Management and Administrative Services; and Other Professional Services. The three that stood out the most in terms of the total number of establishments and new business startup activity included the Architecture, Engineering, and Design subgroup, the Media Production sub-sector, and the Management and Administrative Services

Table 8: Management and Innovation Services, City of Eureka

Description	Establish. 2012, All	Small Business	Startup '07-'11	Closures 07-'11	Net Change	Starts 2012
Architecture, Engineering, and Design	111	101	64	27	37	15
Research and Development	9	9	4	2	2	1
Computer Systems and Software	16	14	7	12	-5	0
Media Production	43	43	25	22	3	3
Telecommunications	29	26	12	7	5	5
Management and Administrative Services	53	53	31	19	12	5
Other Professional Services	71	69	66	18	48	9
Total, Management and Innovation	**332**	**315**	**209**	**107**	**102**	**38**

Sources: Walls & Associates, 2012 National Establishment Time Series, 2015; BAE, 2015.

Table 9: Management and Innovation Services, Humboldt County

Description	Establish. 2012, All	Small Business	Startup '07-'11	Closures 07-'11	Net Change	Starts 2012
Architecture, Engineering, and Design	305	290	193	81	112	33
Research and Development	47	46	23	12	11	2
Computer Systems and Software	53	50	22	37	-15	1
Media Production	99	99	67	42	25	7
Telecommunications	49	46	32	25	7	7
Management and Administrative Services	130	126	79	56	23	12
Other Professional Services	170	166	138	40	98	21
Total, Management and Innovation	**853**	**823**	**554**	**293**	**261**	**83**

Sources: Walls & Associates, 2012 National Establishment Time Series, 2015; BAE, 2015.

sub-sector. Combined, these three sub-sectors included a total of 207 establishments, most of which were small businesses and sole proprietorships. These sectors saw a total of 120 new business starts between 2007 and 2011, compared with only 68 closures, for a net gain of 52 new business establishments.

The Architecture, Engineering, and Design sub-sector is the largest of these three categories and the most robust growth is among landscape architectural firms and industrial design firms. The Management and Administrative Services subgroup is primarily concentrated among management consulting establishments, which experienced the most startup activity. While the Media Production sub-sector saw relatively robust new business formation with 25 business startups, the subgroup also saw a total of 22 closures, indicating a high failure rate.

Though one of the smaller sub-sectors in this industry cluster, the Computer Systems and Software group is one that would likely benefit from business development and incubation services. As of 2012 there were 16 establishments working in a variety of capacities in this sub-sector, ranging from software publishing to internet hosting, custom computer programming, and computer system design. All but two of these establishments were small businesses, with five being sole proprietorships. A total of six establishments already had between three and five workers, while three had between six and 10 workers.

This indicates that many of the businesses in this subcategory have successfully cultivated an entrepreneurial concept, but may require assistance with business development and scaling. Between 2007 and 2011, this sub-sector saw seven business starts, which were spread across a variety of specialties. However, the sub-sector also saw a total of 12 business closures during this period, indicating contraction and that businesses in this category might need assistance with identifying more sustainable business models.

While the performance of various sub-sectors within the Management and Innovation Services industry cluster is varied, the cluster as a whole shows considerable start-up activity, and it represents a knowledge-based industry that can help to diversify the local economy with relatively high paying jobs. Through broadband communications, businesses in this cluster can mitigate some of Eureka's locational disadvantages related to relative isolation from larger markets. Primarily office-based businesses comprise the business cluster, and this locational characteristic is consistent with Eureka's current position as a center of office-based business on the North Coast. Further, many of the business types that are included in this industry cluster are part of the "creative" class of businesses, which tend to gravitate towards mixed-use, urban settings, such as Downtown Eureka. For these reasons, the ESA team recommended the broad Management and Innovation Services cluster for further analysis of business incubator and economic gardening opportunities, in Phase III of this study, including determination as to whether a successful incubator would need to be focused on a specific sub-sector or a number of closely related sub-sectors.

Summary of Recommended Targets for Phase III Analysis

Based on the two-step Phase II analysis, the ESA team recommended that Phase III of this study focus on the Food and Beverage Products sub-sector, the Cannabis Products sub-sector of the Niche Manufacturing industry cluster, and the broad Management and Innovation Services industry cluster, for further analysis of business incubator and economic gardening opportunities.

Phase III – Priority Industry Target Refinement

In the third and final phase of the industry target identification process, the ESA team invited more than 100 community members in the greater Eureka area and experts from outside the region to participate in interviews designed to collect information regarding the needs of businesses within each of the three target industry sectors identified for further evaluation in the Phase II research. Interviews included local business owners in all three industry sectors, as well as key industry leaders, local government representatives, local economic and business development services providers, and other knowledgeable informants. The purpose of these interviews was to confirm the conclusions made in the prior two phases, to collect additional detail regarding existing industry trends

and opportunities, to identify those factors critical to success or failure in the industry, and to identify characteristics of a business incubator or economic gardening program that be the most help to entrepreneurs who are working to establish and/or expand a business in Eureka.

Food and Beverage Products Manufacturing

With the growth of the "foodie" movement, locally sourced food and beverage products have begun garnering considerable attention in communities throughout the nation. The industry is growing in part due to consumer interest, but also due to its relative accessibility. Industry representatives and other interviewees acknowledged that much of the considerable interest expressed in the specialty food and beverage products industry comes from so-called "lifestyle" entrepreneurs.[45] These are individuals who have an idea, perhaps a family hot sauce recipe or a reputation for making delicious muffins, who consider establishing food-based businesses simply because they think it would be fun, often with little consideration for 1) whether or not there is a market for their product, and 2) whether they will be able to cover their costs, let alone generate income. Most interview participants also recognized that the vast majority of food-based business ideas will never be attempted and that only a very small minority of those expressing interest in food-based businesses are actively pursuing entrepreneurship with the intention of establishing and growing a viable business.[46,47] While nearly all of the ESA team's interview participants indicated that they would be "in support" of establishing a food and beverage oriented incubator program with dedicated low-cost facilities, most agreed that the City's resources might be better spent helping prospective entrepreneurs to better understand and refine their products and business plans, and to realistically evaluate whether or not there is, in fact, a market for the product.

Interviews with entrepreneurs in the food and beverage products industry indicated that most are at least generally aware that Foodworks exists, though many were not familiar with the facility's current offerings or status (e.g., availability).[48,49,50] Again, nearly all interview participants indicated that they would generally be in support of providing shared kitchen space, or a food-based incubator, though most then recognized that those types of facilities do already exist, at least in some form, within the greater Eureka area. Among some, there was a perception that, perhaps, the Foodworks facility is not managed particularly well, or that there are some characteristics of the facility

[45] Lauren Herstead, Sweet Fields Farm, Personal Communication, August 18, 2015.
[46] *Ibid.*
[47] Sandy Neal, North Coast SBDC, Personal Communication, August 24, 2015.
[48] Janet Czarnecki, Redwood Roots Farm, Personal Communication, August 25, 2015.
[49] Michelle Cartledge, Humboldt Cider Company, Personal Communication, August 18, 2015.
[50] Lauren Herstead, Sweet Fields Farm, Personal Communication, August 18, 2015.

that are not ideal for some users.[51] While most interview participants were at least generally familiar with Foodworks, very few were aware of the one commercial kitchen that the management maintains for short-term (i.e., hourly) rental. Participants generally agreed that additional marketing of that facility may go a long way toward addressing the perceived need.[52] Interviews also identified a general familiarity with some of the other commercial kitchen resources located throughout the greater Eureka area, such as commercial kitchens available for short-term rental at area churches and community halls, though few were familiar with how to actually go about securing the use of such a facility.[53] All interview participants questioned on the topic agreed that better coordination of these existing resources would likely satisfy a majority of the existing demand.

In addition to those resources discussed above, a number of existing food and beverage product business owners identified AB 1616 as a positive development for their industry.[54,55] As described previously, this legislation permits the production of certain types of food products using in-home kitchen facilities. Those who identified this legislation as a valuable resource also indicated that there is a general lack of familiarity with the law. Therefore, some of the expressed demand for shared kitchen space may realistically be satisfied through better education regarding what is allowed under AB 1616, often referred to as the California Homemade Food Act.

Conversations with growth oriented food-based businesses, such as those occupying space at Redwood Acres, indicated little interest or benefit associated with shared kitchen facilities. Most indicated that the availability of shared kitchen facilities would not have helped them to any great degree in establishing their business. Most indicated that those types of facilities are better oriented toward the locally-oriented lifestyle entrepreneur, and the farmer's market vendors. Growth oriented businesses typically indicated that their greatest need was for low-cost, long-term (i.e. permanent) commercial space.[56] The key distinction between what these entrepreneurs described and the facilities available at Foodworks is that these business owners do not want to have to move out after one to three years, as would be the case in a traditional incubator facility. Most anticipate making considerable investments in the spaces that they occupy, from expanding water, sewer, and electrical capacity, to establishing high quality retail outlets, as done at Dick Taylor Craft Chocolates and Humboldt Cider Company. As growth oriented businesses willing to make investments in their products and their production facilities, these businesses would not be

[51] Paul Leslie, Humboldt Honey Wine, Personal Communication, August 25, 2015.
[52] *Ibid.*
[53] Dave Wells, Wells Commercial Real Estate, Personal Communication, August 20, 2015.
[54] Janet Czarnecki, Redwood Roots Farm, Personal Communication, August 25, 2015.
[55] Lauren Herstead, Sweet Fields Farm, Personal Communication, August 18, 2015.
[56] Michelle Cartledge, Humboldt Cider Company, Personal Communication, August 18, 2015.

interested in occupying space within an incubator, because it places too many restrictions on their business operations. What these businesses are asking for is exactly what they found in Redwood Acres, which is a facility that is willing to work with them to facilitate their success. For example, Humboldt Cider Company occupies space at Redwood Acres, which they lease at a below-market rate. Redwood Acres management has expressed support for their business, to the extent that they offered to apply for grant funding (as a 501(c)(3) nonprofit) to help Humboldt Cider Company build out their facilities. Lease rates are structured on a sliding scale, which increases in tandem with each company's revenues, up to the point where it equals the market rate. In other instances, as in the case of Dick Taylor Craft Chocolates, this type of an arrangement can be made directly with a private property owner. Most growth oriented businesses agreed that the City might best utilize its limited resources to identify property owners that are willing to work with startups and early stage businesses in a way similar to that described above.

Interviews with members of the Eureka area food and beverage products industry highlighted a small, but vibrant, community of growth oriented businesses. Among the supports that would be most beneficial for members of this industry is a program that coordinates and facilitates the identification of low-cost, flexible leases of existing commercial space. Other supports identified by interview participants include the creation of some type of co-packing facility, such as what is being considered by Humboldt Made. According to Aaron Carter, Executive Director of Humboldt Made, such a facility could include somewhere on the order of 150,000 square feet of facilities and would cater primarily to larger (second stage) firms that are already exporting out of the region.[57] Smaller growth-oriented businesses also expressed interest in the potential availability of low-cost co-working space and shared meeting facilities.[58,59] These would allow manufactures and producers that do not have immediate access to office or meeting space to meet with suppliers, distributors, and other industry contacts in a professional environment. These business owners also indicated that they might be willing to use such a facility for their own occasional office work, such as financial planning, marketing, and design work. Lastly, a number of contacts within this industry indicated that they recognized the value of the local Economic Fuel contest, formerly sponsored by Redwood Capital Bank, and the Innovate Business Challenge programs, sponsored the Rising Starts Foundation.[60,61] These are essentially business plan competitions, though the Economic Fuel program at one time offered up to

[57] Aaron Carter, Humboldt Made, Personal Communication, August 11, 2015.
[58] Lauren Herstead, Sweet Fields Farm, Personal Communication, August 18, 2015.
[59] Michelle Cartledge, Humboldt Cider Company, Personal Communication, August 18, 2015.
[60] Lauren Herstead, Sweet Fields Farm, Personal Communication, August 18, 2015.
[61] Karen Brooks, Humboldt County Office of Education, Personal Communication, June 22, 2015.

$25,000 in seed capital. These programs were vital to the success of at least one interview participant.

Niche Manufacturing/Cannabis Products

Interviews with both local and national leaders in the cannabis industry indicated that there is considerable potential within this industry for robust growth. All those interviewed indicated that there is sufficient interest, expertise, and capital within the existing industry and that intervention by local government is not strictly necessary. However, ongoing developments in the industry at the national scale may pose certain risks for the industry within Humboldt County, if action is not taken to establish a framework within which the legal cannabis industry can grow and develop. Conversations with local industry leaders, including Patrick Murphy and Andy Powell, both with California Cannabis Voice Humboldt, indicated that the local industry is prepared and enthusiastic about the prospect of developing a legal industry within Humboldt County.[62,63] However, there are concerns regarding the openness of the community toward a legal cannabis industry.

At minimum, the actions that would be necessary in order to signal to the cannabis industry that the Eureka community is open to the establishment of a regulated, legal cannabis industry include the identification of land appropriate for development of facilities to house the cultivation, processing, packaging, and distribution of cannabis products.[64,65] This may include indoor cultivation facilities, laboratory space necessary for product quality control and processing, as well as warehouse and distribution infrastructure. Similar to other manufacturing type uses, like breweries, such uses would need to be sited in areas that would minimize potential negative interactions with surrounding land uses, such as residential neighborhoods. This is similar to what was approved with the "Medical Marijuana Innovation Overlay Zone" in Arcata. However, Mr. Murphy indicated that there is at least some dissatisfaction with that site due to the significant environmental remediation necessary to actually develop it. Local interview participants indicated that other existing commercial kitchen facilities cannot be used for cannabis related products due to concerns over cross contamination, and there are no facilities available where cannabis processing is permitted on a large scale.

[62] Patrick Murphy, California Cannabis Voice Humboldt, Personal Communication, August 24, 2015.
[63] Andy Powell, California Cannabis Voice Humboldt, Personal Communication, August 26, 2015.
[64] Patrick Murphy, Private Business Owner, Personal Communication, August 24, 2015.
[65] Andy Powell, California Cannabis Voice Humboldt, Personal Communication, August 26, 2015.

Other issues that were raised, particularly by local industry representatives, were primarily characterized by concerns regarding local control over the legal cannabis industry in Humboldt County.[66,67] There is some expectation that – upon liberalization of regulations concerning cannabis production, processing and distribution – national corporate interests could exert undue influence over what was once dominated by actors located within the North Coast community. Conversations with national industry leaders identified an openness to working with local industry leaders to identify opportunities for locally driven initiatives that leverage the advantages of the national industry actors, while recognizing the tremendous human and intellectual capital that exists within the local industry.[68,69] For example, industry representatives from both the local and national levels acknowledged Humboldt County's existing brand recognition. They also recognized that the region's key asset is the industry's collective expertise and experience (i.e., both human and intellectual capital). However, some argued that the underground industry in Humboldt County has little experience or expertise working within the legal market.[70] This may limit the industry's ability to adapt to the changing regulatory context and provide an additional competitive advantage to producers and suppliers located closer to major markets. The implication is that if the local industry does not, or cannot, take appropriate steps to preserve and leverage its intellectual capital, it may struggle to remain relevant within what is positioned to become a highly competitive industry. National leaders recommended that the local industry work to establish relationships that would allow the local industry to leverage the documentable track record of the broader national industry, as well as their networks of high-tech entrepreneurs and capital resources.[71,72] Local industry leaders can subsequently leverage their technical skill and experience in working with the plants and related processes.

Business Management and Innovation Services Interviews

Interviews with industry leaders in the Business Management and Innovation Services sector identified a large pool of highly skilled, highly educated professionals. These individuals typically work for either a larger established firm, or operate independently, often out of their homes. During the interview

[66] Patrick Murphy, Private Business Owner, Personal Communication, August 24, 2015.
[67] Napier, J. (2015). California City Innovates on Brink of Marijuana Boom. *Digital Communities*. Retrieved from: http://www.govtech.com/dc/articles/California-City-Innovates-on-Brink-of-Marijuana-Boom.html
[68] Patrick Rea, Canopy Boulder and ArcView Market Research, Personal Communication, August 27, 2015.
[69] Khurshid Khoja, Greenbridge Corporate Council, Personal Communication, August 17, 2015.
[70] Patrick Rea, Canopy Boulder and ArcView Market Research, Personal Communication, August 27, 2015.
[71] Patrick Rea, Canopy Boulder and ArcView Market Research, Personal Communication, August 27, 2015.
[72] Khurshid Khoja, Greenbridge Corporate Council, Personal Communication, August 17, 2015.

process, it proved difficult to identify many of these smaller, self-employed professionals, since most do not have a significant online presence and were not identified in the NETS database. Many of those identified in the NETS data have since changed their contact information or are now employed by other companies or organizations. While the majority of those interviewed for this research are employed by larger firms located in Eureka or the greater Eureka area, the ESA team worked with interview participants to identify additional individuals (i.e., referrals) who would be able to provide input on how they might benefit from a business incubator targeted towards professional services.

While the NETS data identified 16 establishments in the Computer Systems and Software sub-group, an attempt to contact these businesses indicated that the majority are well established, second stage businesses, with mature product lines. These include companies like the Wenlin Institute that markets computer software designed to help people learn Chinese and John Holder Software, which develops and markets software for Apple users. The ESA team was not able to identify the current status of the other small software related businesses identified in the NETS data. Other tech related firms identified in the NETS included telecommunications firms. Similar to those companies identified in Computer Systems and Software, these primarily include retail outlets associated with multi-national telecommunications firms, as well as regional computer systems and network design firms, such as Network Management Services, BizTech, and NylexNet. Others, like Cornerstone Computing, are basic computer retail and repair establishments, rather than innovative entrepreneurial ventures.

The greatest amount of small business and entrepreneurial activity appears to be in the Architecture, Engineering, and Design sub-group. This includes – as the name implies – architects, environmental and civil engineers, and other design professionals. This generally aligns with the core programs available at HSU and CR, as well as the area's cultural inclinations. The general employment track among professionals in these specializations, according to interview participants, includes an undergraduate degree from an accredited institution, followed by a period of time working under another more experienced professional.[73] Following licensure, there are two main options, either working independently and starting one's own firm, or going to work for an established business. The greater Eureka area features a large number of recent program graduates, as well as recently licensed professionals, who often pursue independent consulting following the completion of their studies. However, interview participants indicated that this is often due to a lack of other options, recognizing that many of these professionals eventually move on to join established businesses. Part of the reason for this is that professionals in the early stages of their careers often struggle to recruit business clients and have

[73] Bret Rinehart, Wehlund Construction, Personal Communication, August 13, 2015.

Table 10: Summary of Outcomes from the Industry Targeting Exercise

Phase I: Preliminary Sector Identification						Phase II: Sector Screening			Phase III: Business Incubator and Economic Gardening Opportunities							
	References in Economic Development Plans															
Industry Sectors Preliminarily Identified in Phase I	Example Businesses in this Industry Sector	Local Examples of Business Facilities Targeted to this Sector	City of Eureka Economic Development Strategic Plan (2015)/General Plan Community Background Report	Humboldt County Comprehensive Economic Development Strategy (2013-2018)/Targets of Opportunity	Historic Strength in Eureka and /Humboldt County	2007 to 2011 Start-Up Activity in Eureka	Recommended for Phase III Assessment	Recommended Sub-Sectors	Primary Challenge of Developing this Sector	Other Challenges of Developing this Sector	Potential for Job Creation in Eureka	Recommended for Phase III Feasibility Analysis	Approximate amount of Space Required per User	Appropriate Zoning Districts	Initial Startup Costs (Facilities)	Ongoing Operations - Revenue/ (Expense)
Diversified Health Care	St. Joseph Hospital, Open Door Community Health; Redwood Coast Acupuncture Center	None identified	Yes	Yes	Strong	n.a.	No									
Building Systems, Construction & Maintenance	Homestead Builders, Powell Concrete Pumping, Humboldt Carpentry	None identified	No	Yes	Moderate	n.a.	No									
Investment Support Services	Pacific Partners, First Priority Financial, Humboldt Capital Company Inc., Wells Fargo Advisors, LLC	None identified	Indirectly referenced as part of regional office sector	Yes	Weak	n.a.	No									
Specialty Agriculture, Food, and Beverage	Lost Coast Brewery, Dick Taylor Craft Chocolate	Arcata Foodworks, Redwood Acres	Yes	Yes	Strong	7	No	Consider opportunities across broad cluster	Low volume of startup activity	"lifestyle entrepreneurs" versus "growth entrepreneurs"	Low to Moderate	Yes				
Management and Innovation Services	Medical Cannabis Consultants, Cambria Environmental Tech, Integral Consulting	The Link, Arcata	Indirectly referenced as part of regional office sector	Yes	Weak	209	Yes	Consider opportunities across broad cluster	Limited consumer market for provided services	Low-cost, low-quality office market	Low to Moderate	Yes	50-250 square feet (small office)	OR, CN, CP, CC, CW, CS	($375,000) startup	$220,000 Revenue; ($436,000) Expenses
Niche Manufacturing (non-food)	Pierson Pottery, Mike Olmstead Woodworking, Warm Belly Wetsuits	None identified	Yes	Yes	Weak	28	Yes	Cannabis products, including R&D	Lack of experience with the legal industry	National competition with better access to markets	Moderate to High	Yes				

little, if any, training in business management and development. They also often struggle to afford their own professional office space, so most end up operating home-based businesses.

While some professionals in the environmental services industry indicated that the market in their sector is already saturated with qualified professionals,[74] others indicated that there are still opportunities for young professionals in environmental and civil engineering and construction within the region.[75] Others indicated that there are opportunities to build the industry in the greater Eureka area, leveraging outside markets. For example, Ken Davlin with Oscar Larson and Associates, works on projects that are primarily located outside of the region, in areas like southern California, as well as internationally.[76] The company, and its associates, remain in Eureka due to the North Coast setting and a commitment to the community. However, Mr. Davlin recognized that regional demand would not be sufficient to support his business, as have other area professionals.[77,78] As a result, an incubator program should focus on helping startups in the environmental engineering sub-sector, among others, to better define their core markets and to refine their core service lines, in addition to meeting other general business assistance needs.

Most of the professionals interviewed for this research, as well as local real estate brokers, identified a considerable amount of demand for low-cost office space. While the existing real estate market for office space is quite soft (i.e., very low rents and high vacancy), the majority of the available space is very low quality.[79,80] Also, the available spaces, though often modest in size, are leased at a total cost that remains beyond what most professional startups can pay. Industry leaders, as well as the local real estate community, indicated that in order to be competitive, the office space provided within an incubator facility would need to be very high quality, but also low cost. In order to make the space attractive to home-based professionals, who often leverage their home office as a tax deduction, the incubator should provide small, flexible work spaces that would be competitively priced, but would offer the benefits of a more professional working environment (e.g., clean/organized setting, few distractions, conference and meeting space, etc.).[81,82,83] Interviewees highlighted that an incubator space would need to be coordinated with high-quality business and professional development services.

[74] Scott Ferrimen, Blue Rock Environmental, Personal Communication, August 18, 2015.
[75] Bret Rinehart, Wahlund Construction, Personal Communication, August 13, 2015.
[76] Ken Davlin, Oscar Larson & Associates, Personal Communication, August 21, 2015.
[77] Bret Rinehart, Wahlund Construction, Personal Communication, August 13, 2015.
[78] Scott Ferrimen, Blue Rock Environmental, Personal Communication, August 18, 2015.
[79] Dave Wells, Wells Commercial Real Estate, Personal Communication, August 20, 2015.
[80] Scott Pesch, Coldwell Banker Real Ette, Personal Communication, August 27, 2015.
[81] Darrin Breen, Accelerant, Personal Communication, August 17, 2015.
[82] Mark McKenna, Mark McKenna Photographic, Personal Communication, August 13, 2015.
[83] Heather Equinox, Humboldt State University Extension, Personal Communications, August 19, 2015.

These should be geared toward young professionals and recent HSU graduates, helping them to develop and refine their consulting skills (e.g., business planning, market research, etc.).

The majority of those interviewed for this research indicated that, if appropriately structured, an office-based business incubator that provides targeted business development services, with flexible and low-cost office space, would help emerging professionals in the Management and Innovation Services sector start and expand their professional practices. However, interviews with representatives in other industries also expressed interest in either accessing low-cost office space or utilizing broad cross-industry business assistance, such as could be provided by an incubator facility.[84] The ESA team, therefore, recommends that a business incubator program be generally oriented toward providing services to startups and early stage businesses in the Management and Innovation Services sector, but that space be made available to accommodate the business development needs of other sectors as well as providing certain incubator-based services to non-resident businesses.

4 Incubator and Economic Gardening Recommendations

The following recommendations are based on the results of the preceding market analysis and interviews conducted with a wide variety of local agencies, industry leaders, and small business people. The overall approach recommended by the ESA team is to consider the establishment of a general or mixed-use business incubator in an office oriented format, offering tiered services to a variety of clients at various stages of business startup and development. Such an incubator should subsequently be coordinated with a variety of additional economic gardening programs, as well as other business support programs and policies. It should not be surprising that financial projections indicate that a business incubator facility in Eureka would involve significant up-front start-up costs and substantial ongoing operating subsidies. Therefore, it will be necessary for the City of Eureka and other local partners to determine whether the community is willing to make the financial commitment to support a local business incubator, given the types of benefits it could offer local businesses and the local economy.

Business Incubator Development Recommendations

The market analysis described in the previous section provided an overview of the entrepreneurial potential present within the greater Eureka and Humboldt County economies. For example, the new business formation rate within the City of

[84] Chris Gaines, Humboldt State University, Personal Communication, June 1, 2015.

Eureka in 2012 was equal to more than four times the national average and three times the statewide average.[85] The countywide business formation rate was nearly twice the national average and more than 30 percent higher than the statewide average. These figures lead to two primary conclusions. They indicate that, perhaps out of necessity due to a lack of alternative employment opportunities, there is a far greater interest in entrepreneurship within the North Coast region than elsewhere in the state and the nation. Also, these data confirm what the ESA team identified through other research conducted for the Eureka General Plan Update and the *Eureka Economic Development Strategic Plan*. That is, the City of Eureka functions as a center for commercial activity within the region, drawing in both businesses and consumers from outside the immediate community. Based on the demonstrated new business formation rates, the ESA team estimates that there are approximately 1,500 individuals currently considering starting a business within the City of Eureka, and 7,800 who are considering starting a business somewhere in Humboldt County. However, only a portion of those prospective entrepreneurs will, in fact, establish a commercial enterprise. Within the City of Eureka, the data indicate that approximately 20 percent of those considering entrepreneurship will actually start a business, resulting in an average of around 300 new businesses per year. Countywide, only a little over eight percent follow through on the promise of entrepreneurship.

Targeted Business Types

While the preceding market analysis identified some moderate levels of industry clustering, the only cluster that showed a sizable volume of entrepreneurial activity, sufficient to potentially support investment in a physical business incubator facility, was the Management and Innovation Services sector. That cluster includes a wide array of business specializations, ranging from architecture and engineering, to computer systems, media production, and administrative services. Though each of these sub-sectors shows evidence of entrepreneurial activity, no single sub-sector has sufficient activity to support the establishment of a new business incubator. Accordingly, the ESA team recommends that any proposed business incubator be generally oriented toward office-based clients, such as those identified in the Management and Innovation Services sector, but that it remain open to working with clients within any industry. The available literature on best practices in business incubation indicates that business incubators that are too narrowly focused often experience difficulty in identifying and recruiting sufficient numbers of clients with viable business prospects. This is especially true of incubators that occupy physical facilities and lease space to client companies, since these incubators typically rely on revenues to partially cover lease costs/debt service, overhead, and operating costs.

[85] For all establishments, including both employers and the self-employed.

Recommended Client Stratification

Business incubator clients often include a wide variety of firms that are at different stages of business development. These often include individuals in the initial exploratory stages of forming a business (pre-incubation), as well as those establishing startups (self-employed). Clients who are working to grow their established businesses often include those transitioning to become employers (first stage), as well as those entering a growth phase (post-incubation; second stage) and are looking to expand into new markets. As a result, the programming provided through the incubator will need to vary in accordance with the needs of a mix of client companies, helping to address their shortcomings and leverage their existing capabilities. The incubator must also establish criteria by which to determine the most appropriate way in which a client might participate in the services provided through the incubator. These may include, among others, an assessment of the:

- Viability of the business concept;
- Businesses position on the business development continuum;
- Potential for job creation (defined in terms of both quantity and quality);
- Anticipated cost of providing services;
- Ability of the incubator to competently provide the needed services; and
- Availability of needed services through other providers.

From a return on investment standpoint, those businesses that offer the greatest potential for successful incubation,[86] as well as those with the greatest anticipated impact,[87] should be offered the highest levels of service. To facilitate defining incubator activities, the ESA team developed four broad client classifications that better characterize the types of services that should be provided to different businesses. These are summarized in **Figure 7** and include Program Clients, Affiliate Clients, and Incubation Clients.

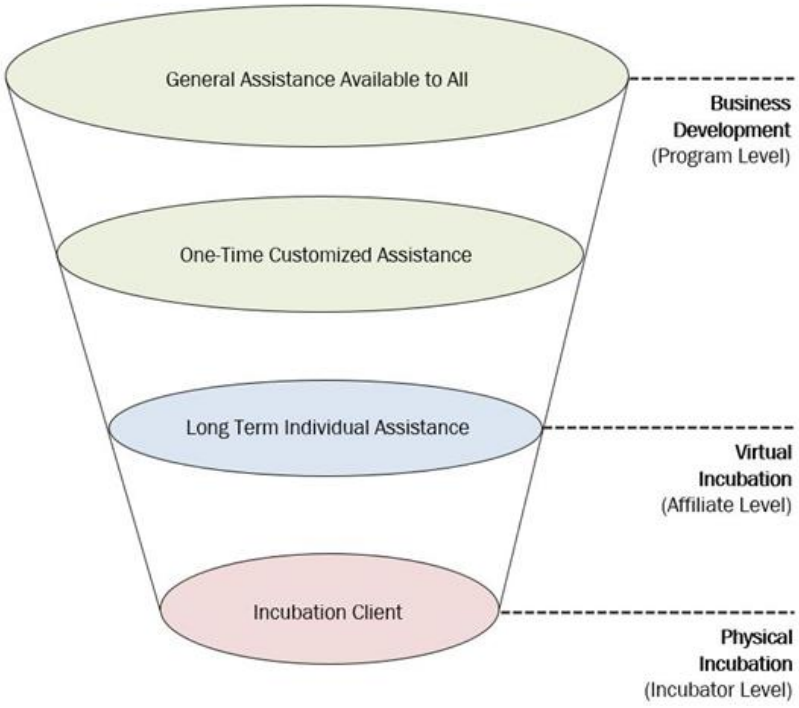
Program Clients

Program Clients will be non-resident businesses. At the most basic level, Program Clients will make only occasional use of incubator services. This will typically include attendance at seminars and networking events, enrollment in educational courses, and basic business planning consultations, as well as other general forms of business assistance, such as those typically offered through the North Coast SBDC. This level of services can be made available to all clients, either free of charge, or at a minimal cost intended to cover only the direct expenses incurred by the program. Some businesses will require more

[86] This includes those businesses that demonstrate the greatest potential to successfully "launch." That is to establish independent business operations outside of the incubation context

[87] Typically measured in terms of job creation and/or export value.

Figure 7: Proposed Client Stratification



tailored assistance, on either a one-time or ongoing basis, such as basic mentorship or consultation or market research assistance, among other forms of assistance. Services provided to these clients should be provided at no or low cost where possible, though the investment of additional public resources should be offset by greater potential for long-term success, as well as greater positive economic impacts.

Based on interviews with local stakeholders and economic development professionals in the greater Eureka area, it is reasonable to assume that an office based business incubator could serve at least 100 clients per year at the Program level. This would equal one-third of the average number of new startups within the City of Eureka each year. In addition, some of those served at the Program level will be in the exploratory phase, meaning that the program would achieve a total market share of around 6.7 percent among the larger pool of individuals of are considering entrepreneurship, but who have not yet started a business. This is likely fairly conservative, considering that the national SBDC network serves an average of more than 450 clients per center, per year.[88,89]

[88] U.S. Small Business Administration. (2014). *Summary of Performance and Financial Information*. Washington, D.C.: U.S. Small Business Administration. Retrieved from: https://www.sba.gov/sites/default/files/files/FY_2014_SPFI_FINAL_508_compliant.pdf

[89] U.S. Small Business Administration. (2014). *Strategic Plan: Fiscal Year 2014-2018*. Washington, D.C.: U.S. Small Business Administration. Retrieved from: https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA_FY_2014_-2018_Strategic_Plan-1.pdf

Affiliate Clients

Like Program Clients, Affiliate Clients will not be located in the incubator. These clients are primarily first stage businesses that require more prolonged assistance, but that do not require physical space within the business incubator. These businesses will interact with other program participants and the program administrators using a virtual incubator format. Affiliate Clients typically require assistance with research and development, commercialization, and marketing, as well as fundraising, and other activities requiring special expertise. Reflecting the additional costs associated with providing services at a greater intensity and for prolonged periods, along with limited resources and the desire to invest only in those businesses that offer significant potential for long-term growth, a much smaller number of businesses will engage with the incubator at the Affiliate level. Based on a review of the existing literature on business incubation, the ESA team anticipates that a business incubator, if established in Eureka, could expect to furnish services at the Affiliate level to at least 3.2 percent of startup businesses and 0.5 percent of the total pool of potential entrepreneurs. This would equate to working with approximately five to ten such businesses annually.

Incubator Clients

These clients will receive the most comprehensive services, including occupying space at the facility and engaging in regular contact with mentors and advisors. Incubator Clients will participate in an organized curriculum intended to instill the knowledge necessary for successfully growing an entrepreneurial enterprise. This may include basic business planning and mentoring, technical assistance (business management, legal, accounting, human resources, etc.), market research and development, product development support, and financial assistance. While many of these services will be provided directly through the incubator (i.e., incubator staff, mentor businesses, or affiliate service providers), some of this assistance may also take the form of referrals to other economic development agencies or financial institutions. Based on a review of the existing literature on business incubation, the ESA team anticipates that a business incubator, if established in Eureka, could expect to capture at least 1.0 percent of startup businesses and around 4.7 percent of the total pool of potential entrepreneurs as Incubator Clients. This means that the program could accommodate around 15 such participants at any given time.

Programming

A variety of organizations have conducted a considerable amount of research into the types of services needed by new business startups and early stage firms (i.e., first and second stage). Good resources include the U.S. Small Business Administration, the Ewing M. Kauffman Foundation, and the Edward T. Lowe Foundation, among others. Based on this research, it is clear that business incubators can, and should, provide a broad array of business assistance and

development services, typically ranging from the most basic business assistance (e.g., writing a business plan, basic accounting, etc.) to intensive mentoring and services targeted towards more specialized industries (e.g., technology transfer, patent law etc.). For a listing of services commonly provided within business incubator programs, ranked by importance, please refer to **Figure 8**.

Figure 8: Importance of Common Business Assistance Services

Service	Avg Rating of Importance
Help with Business Basics	4.1
High-Speed Internet Access	4.1
Marketing Assistance	3.8
Networking Activities among Incubation Program Clients	3.8
Access to Angel Investors or Angel Networks	3.7
Linkages to Strategic Partners	3.6
Help with Accounting or Financial Management	3.5
Linkages to Higher Education Resources	3.5
Help Accessing Specialized Noncommercial Loan Funds or Loan Guarantee Programs	3.5
Technology Commercialization Assistance	3.5
Comprehensive Business Training Programs	3.5
Help with Presentation Skills	3.5
Access to Venture Capital Investors	3.4
Specialized Equipment or Facilities	3.3
Intellectual Property Management	3.3
Shared Administrative or Office Needs	3.2
Help Accessing Commercial Bank Loans	3.2
Management Team Identification	3.1
Shadow Advisory Boards or Mentors	3.1
Assistance with E-Commerce	3.1
Help with Regulatory Compliance	3.0
Human Resources Support or Training	2.9
Business Management Process, Customer Assessment Service, Inventory Management	2.9
General Legal Services	2.8
In-House Investment Funds	2.8
Federal Procurement Assistance	2.8
Help with Business Etiquette	2.8
Assistance with Manufacturing Practices, Processes, and Technology	2.7
Assistance with Product Design and Development Practices, Process, and Technology	2.6
Logistics/Distribution Support or Training	2.5
Loaned Executive Working in a Management Capacity	2.5
International Trade Assistance	2.5
Economic Literacy Training	2.5

Source: NBIA, *2010 State of the Business Incubator Industsry* , 2013.

In addition to basic business assistance, the program will need to provide a continuum of services that cater more specifically to the needs of individual client businesses at the Affiliate and Incubator levels. At minimum, this should include the same suite of services provided at the more general level, but delivered in a more intensive and tailored way. These services may be implemented using a business advisory type format,[90] or through the use of mentor coaching, or advisory boards.[91] Additional services that may be provided at this level include:

- Market development assistance;[92]
- Product development assistance;[93]
- Financial advising;
- Assistance with angel and venture capital networks;
- Export assistance;
- Networking, both inter- and extra-regional;
- Technology licensing and commercialization;
- Legal assistance related to intellectual property; and
- University research commercialization; among others.

In addition to serving the informational and training needs of client businesses, the incubator should also function as a resource that businesses can use to help locate and secure financing. While the role of the incubator is not to provide financing directly, though this is sometimes done through a revolving loan fund, most incubators provide assistance to businesses in understanding the appropriate types and sources of financing and help them to develop a strong case to present to potential financiers. The incubator will also want to have at least one staff person or service provider with demonstrated expertise in contemporary crowdfunding techniques using online tools like Kickstarter, Fundable, and MicroVentures.

Organization and Format

The ESA team recommends that the incubator be established as a 501(c)(3) tax-exempt nonprofit organization capable of receiving tax-deductible donations of cash, goods, and/or services. Tax-exempt status is often a requirement for

[90] Incubator staff and/or affiliated service providers function like business consultants, working with the client to specifically identify the businesses most urgent needs and to develop a strategic plan to both address the businesses more urgent needs while achieving its state goals.
[91] Within a business incubator context, an advisory board functions as a guiding entity. The entrepreneur must provide periodic reports and updates to the board, which then provides advice which can be either followed, or ignored by the business owner. This helps to assuage concerns that the entrepreneur might have about relinquishing control over the operation and vision of the business, while providing a venue for receiving guidance.
[92] Market development assistance includes an array of services, ranging from basic market research through advertising and public relations, and contract procurement.
[93] Including prototyping and testing, either in-house or through referrals.

foundation support and provides a competitive advantage for some grant applications. Establishing an organization that is separate from the City government would also provide some insulation to the City from budgetary risk. Such a separation would also exempt the organization from public records laws, positioning the incubator staff to better protect client confidentiality. Lastly, nonprofit status would allow the incubator greater flexibility to respond quickly to varying circumstances, with fewer restrictions on the activities in which it may engage.

Board of Directors

Oversight responsibility for a business incubator should rest with a Board of Directors. The initial Board of Directors for the business incubator should be appointed by the City of Eureka. The City should work to ensure that the local entrepreneurial and small business community is well represented. While many communities prefer to appoint economic development staff or city officials, these individuals often do not possess sufficient direct experience with small business development and entrepreneurship. In the opinion of the ESA team, a well-balanced Board of Directors would be composed of individuals with proven leadership and business development capabilities, as follows:

- Business owner (Hold for incubator graduate);
- Business owner (scientific and technical services);
- Business owner (food and beverage products manufacturing);
- Business owner (niche manufacturing);
- Business owner (cannabis products);
- HSU business school faculty member or other non-business owner;
- Financial sector representative (banking, accounting, or investing);
- Member of the Eureka City Council.

According to both the International Economic Development Council (IEDC) and the EDA, the composition of the advisory board or Board of Directors correlates directly with many measures of success and having the right mix of expertise and personality can make the difference between success and failure. One critical board member is the incubator graduate.[94] [95] It has also been demonstrated that having a technology transfer specialist can be critical. Other useful skill sets and perspective can be found in accountants, intellectual

[94] Anderson, I., Chen, J., Couette, C., and Ghosh, S. (2012). *Accelerating Success: Strategies to support growth-oriented companies*. Washington, DC: International Economic Development Council. Retrieved from: http://www.iedconline.org/book-store/edrp-reports/accelerating-success-strategies-to-support-growth-oriented-companies/

[95] Lewis, D., Harper-Anderson, E., and Molnar, L. (2011). *Incubating Success: Incubation Best Practices that Lead to Successful New Ventures*. U.S. Department of Commerce, Economic Development Administration. Retrieved from: http://www.nbia.org/docs/default-source/research/download-report.pdf?sfvrsn=0

property specialists, and legal services expertise. In addition to its core membership, the board may have ex-officio members, such as staff from:

- City of Eureka Economic Development
- College of the Redwoods
- Greater Eureka Chamber of Commerce
- Headwaters Fund
- Humboldt Area Foundation
- Humboldt County Economic Development
- Humboldt Made
- Humboldt State University
- McLean Foundation
- North Coast SBDC
- Redwood Coast Regional Economic Development Commission

The mission of the Board of Directors will be to provide oversight and strategic direction to incubator staff, though the board will not be involved in the day-to-day management of the facility or its programs. The responsibilities of the Board of Directors will be to:

- Establish a mission, vision, and core values of the incubator;
- Provide direction for long-term strategic planning and annual work plans;
- Establish policies and procedures for incubator facilities, clients, and staff;
- Set criteria and policies for leasing and program recruitment;
- Provide oversight for incubator operations, including reviewing financial performance, supervising staff, and assessing incubator performance; and
- Develop relationships with key partners, service providers, and funders.

The Role of the City of Eureka

Members of the Eureka City Council, as well as staff in the Economic Development Department and the community at large, will have a vested interest in both facilitating and monitoring the implementation of the incubator program. In the event that the City of Eureka contributes funds in support of incubator startup and/or operation, the City will also have an interest in monitoring the incubator's financial performance. City staff in the Economic Development Department will work to integrate the business incubator program with other programs available through the City, such as the Community Development Block Grant (CDBG) revolving business loan fund.

Other Community Partners

In addition to those organizations participating in the ongoing management of the business incubator (e.g., the City of Eureka and those organizations affiliated with the Board of Directors), the incubator will need to cultivate relationships with

an assortment of community partners and service providers. These may include, but should not be limited to:

- Arcata Economic Development Corporation;
- County of Humboldt Office of Education;
- Employment Development Department;
- Humboldt Investment Capital;
- Redwood Acres;
- Redwood Technology Consortium;
- The Link/Greenway Partners;
- Workforce Investment Board of Humboldt county; and
- Innovate North State iHub.[96]

Management and Staffing

High quality, dedicated, extremely dynamic, and competent staffing will be critical to the success of the incubator program. If at all possible, the individual hired for the position of Incubator Program Manager should have prior experience managing a business incubator. This is particularly important in the initial startup years, where the program may initially struggle to recruit tenants and program participants, and to develop relationships with important local stakeholders. The Incubator Program Manager will:

- Work with the Board of Directors to develop the strategic plan and annual work plan;
- Build relationships with partner organizations and service providers;
- Develop and coordinate programs and services provided by the incubator;
- Coordinate marketing of the incubator programs and facilities;
- Recruit and screen tenants and program participants;
- Curate a network of professional service providers, mentors, and investors;
- Conduct ongoing financial management of incubator facilities and program;
- Prepare annual budgets and reports for Board review; and
- Collect and record data on program performance and client outcomes.

[96] The Innovate North State iHUB is part of the statewide Innovation (iHUB) program which aims to improve that state's national and global competitiveness by stimulation partnerships, economic development, and job creation around specific research clusters through state-designated iHubs. The Innovate North State iHUB, in addition to its state mandated functions, also operates a new business incubator, affiliated with California State University Chico, which is focused on manufacturing, cleantech, medical technology, information technology, and agritechnology/food products.

The Incubator Program Manager position is typically staffed by an individual employed by other affiliated or sponsoring organizations. On average, the manager for an incubator program spends approximately 75 percent of his or her time actively participating in program related functions. However, this staffing level may reflect a mature program that requires less ongoing management. Therefore, the ESA team recommends staffing the Incubator Program Manager at a full-time level for the first three to four years in order to better support program startup and stabilization. In addition to the Program Manager, the ESA Team recommends hiring at least one full-time support staff member. This individual can provide additional support and capacity to the manager, while allowing the incubator to maintain/expand its operating hours and provide greater responsiveness to participant needs.

Participant Intake and Graduation Policies

According to the IEDC and EDA, incubator participant recruitment and graduation policies for resident businesses are closely correlated with program success. For example, programs that select resident clients based on cultural fit and potential for success typically do better than those with less rigorous intake standards. Similarly, programs that lack clear and enforceable exit policies often have less than optimal performance. This is because tenants have a tendency to stay longer than would be otherwise necessary, in order to take advantage of below-market lease rates and other services. This can take up valuable space and resources that might otherwise be provided to other participant businesses. Similarly, while some incubators recruit non-program tenants help to provide stable lease revenues, these tenants can also take up space that could otherwise be occupied by program participants. To the degree possible, incubator programs should provide clear preference to program participants, offering shorter lease terms to non-program tenants so that there is flexibility to take advantage opportunities that arise to accommodate promising businesses that show strong potential to benefit from incubator services.

As discussed previously, this analysis divides the prospective client base into three different categories. Participants engaging at the Program Client level will require little to no screening, since services in this context are primarily provided in a class format, or are covered through fees designed to function as a direct cost pass-through to the client. Clients engaging with the program at the Affiliate level will require more intensive assistance that may cost considerably more than services provided at the Program level. Therefore, these participants will require a greater degree of screening in order to justify the greater investment. Participants at the Incubator Client level will engage most intensively with incubator program staff and service providers, occupying space within the incubator facilities, in addition to accessing services. Therefore, Incubator Clients should be required to meet higher standards of screening, to be established by the Board of Directors. It is, however, fairly common for incubators to implement somewhat less restrictive

screening criteria during the first three or four years of operation, as the incubator staff work to bring the facility to full capacity and to begin generating revenue. Upon program stabilization, the program can transition to more rigorous standards for Incubator Client screening and exit policies.

For both Affiliate and Incubator clients, the incubator will want to confirm, on an ongoing basis, that adequate progress is made toward development of the business concept. This is done in order to justify continued investment. If not enough progress is made, or if the concept or product proves not to be viable, the incubator should consider dropping the client from the program or, at a minimum, transitioning the client to a payment schedule that better reflects the full cost of the services provided, including the payment of a market rate rent.

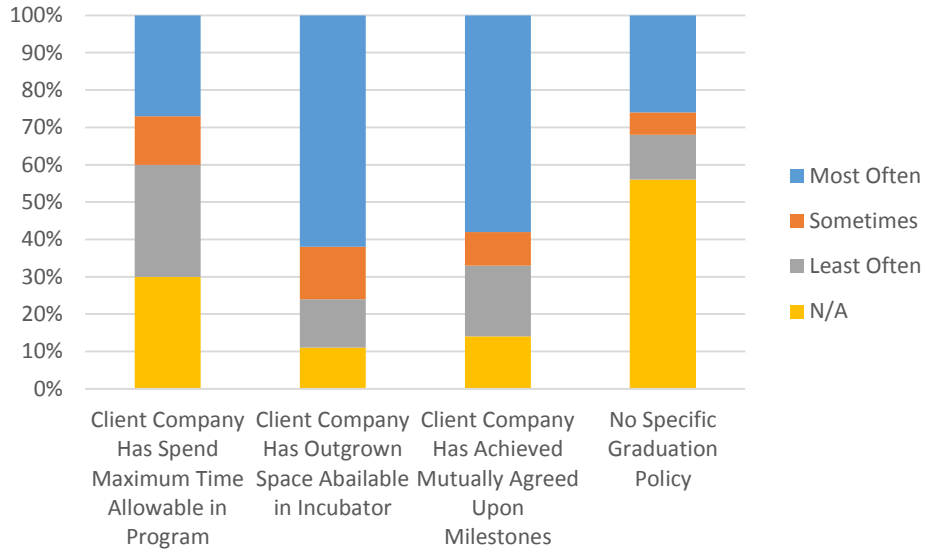
It must be recognized that the primary mission of a business incubator is to graduate viable businesses that can operate independently and without subsidy. For a variety of reasons, this is often a challenge. According to the NBIA, incubator programs graduate an average of 6.5 businesses per year, though the median value is only two businesses per year. The average length of time an incubation client will stay in an incubator is 28 months, with a median of 30 months. Affiliate clients remain associated with the incubator program for between 18 and 19 months. Most incubation programs aim to graduate participants within two to three years. More recently, some incubation programs have implemented graduation policies based on client growth and development, recognizing that not all growth occurs at the same rate. **Figure 9**, below, reports the relative frequency with which incubators apply various graduation policies. While more than one-quarter of the incubators studied in the NBIA *2012 State of the Business Incubator Industry* report do not have a specific graduation policy (which the ESA team does not recommend), the majority most often apply policies related to the appropriateness of the space occupied by the client and the ability of the client to meet certain pre-established milestones. Only a little over one-fourth of respondents to the NBIA survey indicated that they most often utilize a time limit as the basis for program graduation.

Facility and Infrastructure Needs

Given that the proposed incubator facility would be made available to a wide variety of business types – with programming targeted primarily toward entrepreneurs in the Management and Innovation Services sector and Food and Beverage Products sector, among others – the ESA team does not recommend the provision of any specialized facilities (such as wet labs, cold storage, commercial kitchen, etc.). The proposed facility would include general office space and support spaces.

Table 11 summarizes the anticipated space requirements of the proposed incubator facility. The configuration is intended to function as a rough guide for the City, providing some direction in terms of the layout that the ESA team believes might best facilitate program success. The layout would cover

Figure 9: How Often Incubation Programs Use Various Graduation Policies



Source: NBIA, *2012 State of the Business Incubator Industry*, 2013.

Table 11: Proposed Incubator Facility Space Requirements

Function	Number of Spaces	Dimensions	Sq. Ft. Per Unit	Total Sq. Ft.	Percent of Total
Office Suite	2	35 x 35	1,200	2,400	16%
Small Offices	24	12 x 12	150	3,600	24%
Co-Working Space	40	7 x 7	50	2,000	13%
Subtotal, Work Areas				**8,000**	**53%**
Conference Rooms	2	24 x 24	600	1,200	8%
Kitchen/ Break Room	1	20 x 20	400	400	3%
Subtotal, Common Area				**1,600**	**11%**
Administrative Office	1	28 x 28	800	800	5%
Reception Area	1	10 x 10	100	100	1%
Subtotal, Administration				**900**	**6%**
Circulation Factor	n.a.	n.a.	30%	4,500	30%
Subtotal, Adjustments				**4,500**	**30%**
Total, All Areas				**15,000**	**100%**

Source: BAE, 2015

a total of 15,000 square feet, which is below average for business incubators, according to the NBIA *2012 State of the Business Incubator Industry* report. This

is intended to help ensure that the program can recruit a sufficient number of tenants and clients to fill the facility, reducing the risk that the program would need to carry a significant amount of unoccupied space over time. If the incubator program is successful, plans should be in place to expand the facility, as appropriate.

The proposed layout was developed in such a way as to provide at least two larger office suites (1,200 square feet each) that would ideally be leased out to established companies. The most appropriate tenants for these spaces are businesses that could provide programmatic synergy with the business incubator program, such as a marketing firm, business development consultancy, or economic development agency. Rents paid by these tenants would also help to provide stable revenue to the incubator program. Nearly one-quarter of the remaining leasable area would be allocated to around 24 smaller office spaces (roughly 150 square feet each). These spaces would be designed to be occupied by individual small business owners, or small teams. Individual tenant businesses may want to occupy more than one small office space. This orientation would allow the greatest degree of flexibility, allowing the program to accommodate self-employed persons, as well as growing businesses, in a more adaptive format. Lastly, the proposed configuration would also include a total of 40 co-working spaces (50 square feet each). These are designed to allow home-based businesses or individuals without access to a regular office space with a high quality, professional working environment that is priced at a competitive and flexible rate. These spaces may be leasable on an hourly, daily, weekly, or monthly basis and would provide a basic desk or work space, along with internet access and access to other program services, as appropriate.

Other important components of the proposed facility layout include two conference rooms (600 square feet each). These spaces are designed for shared use by all tenants and program participants, and could function as a flexible work space if any overflow space is required. These spaces are intended to accommodate up to around 15 individuals (each) in a typical conference room layout, with a large table and chairs, plus multi-media equipment (i.e., projector, screen, and teleconference equipment). The layout provides enough space for a small shared kitchen, as well as 800 square feet of administrative office space and a 100 square foot reception area. The calculations assume a circulation factor of 30 percent.

Furnishings and Equipment

Once the facility has been secured and the necessary tenant improvements completed, an additional outlay will be required to appropriately furnish the space and ensure the availability of required services (e.g., high-speed internet, telephone service, etc.). While the incubator program can plan on leasing the two larger office suites unfurnished (tenants will provide their own furnishings), it

should plan on offering the smaller offices and co-working spaces fully furnished, with shared office equipment and any necessary backbone telecommunications infrastructure already provided. Businesses should generally be expected to provide their own computers and software. However, the incubator program may want to explore the provision of a number of computer work stations equipped with specialized computer software, though the number of machines and the types of software provided would need to be evaluated in more detail with prospective clients in order to justify the expenditure. Other basic furnishings and equipment will include the following, the anticipated costs of which are summarized in **Table 12**:

- Furnishings
  - Small offices (desk, chair, lighting);
  - Co-work spaces (table/desk, chair, shared lighting);
  - Reception (chairs, coffee table, displays);
  - Conference rooms (table, chairs, projector and screen, white boards, teleconference equipment);
  - Administrative office (desks, chairs, lighting, storage, computer equipment); and
  - Kitchen (stove/oven, refrigerator, microwave, table, chairs).

- Other Equipment
  - Computer network (ethernet wiring, wireless routers, network hubs, etc.);
  - Telephone system (wiring, handsets for administrative office, voicemail);[97]
  - Printers (intended for shared use);
  - Photocopiers (intended for shared use); and
  - Other miscellaneous office equipment (binding, shredding, etc.).

Leasing Strategy

One of the more common business incubator functions is to provide low-cost, often below market rate, commercial space to program participants. Based on an evaluation of existing real estate listings and discussions with a number of local real estate agents, the ESA team identified a relatively weak local office market. A brief scan of the real estate listings identified a total of 20 existing office spaces ranging in size from 350 square feet to 8,491 square feet. Asking monthly lease rates for office space range from $0.42 to $1.80 per square foot, with an average of $1.08. Interviews with real estate brokers indicated that a majority of the available office stock is at or near the point of obsolescence, meaning that the space could be occupied, but that it would be largely unappealing to most, if not all, prospective tenants.

[97] Office tenants will be required to procure their own phone service, either by using a cell phone, or establishing their own “land line” service through a provider of their choice, and connecting through the basic wired infrastructure (provided by the program.

Table 12: Estimated Furnishing and Equipment Costs

Item	Quantity	Unit Cost	Total
Office (a)	24	$2,000	$48,000
Co-working (b)	40	$1,000	$40,000
Reception (c)	1	$5,000	$5,000
Conference Rooms (d)	2	$5,000	$10,000
Administrative Office (e)	1	$8,000	$8,000
Kitchen (f)	1	$3,500	$3,500
Subtotal, Furnishings			**$114,500**
Network (g)	1	$10,000	$10,000
Phone system (h)	1	$5,000	$5,000
Printers	4	$500	$2,000
Photocopiers	2	$1,500	$3,000
Miscellaneous (i)	n.a.	$2,000	$2,000
Subtotal, Equipment			**$7,000**
Total, All			**$121,500**

Notes:
(a) Includes desk, chair, filing cabinet, and lighting. Only the smaller, near-term office spaces are assumed to be furnished by the incubator program.
(b) Includes desk, chair, and one light fixture for every two spaces.
(c) Includes chairs, coffee table, and displays.
(d) Includes table, chairs, projector and screen, white boards, and teleconferencing equipment.
(e) Includes desk, chairs, lighting, file storage, and computer equipment.
(f) Includes stove/ oven, refrigerator, microwave, table, and chairs.
(g) Includes high speed computer network, with both hard wired and wireless connectivity.
(h) Includes commercial grade telecommunications, with handsets provided in administrative spaces and connectivity available in all leased spaces.
(i) Includes assorted office equipment, such as that used for binding, shredding, and cutting.

Source: BAE, 2015.

In order to provide value to tenants in a weak office market, the business incubator would need to occupy, and offer for participants, a high quality office product. This is intended to differentiate the incubator space from the remaining inventory of office space, which would help to make the incubator space economically attractive, even at a comparatively high cost. Cost competitiveness can subsequently be achieved by offering spaces for lease that are considerably smaller, but also much higher quality, than the other office products currently available in the Eureka market. Although the ESA team did not identify any spaces currently offered that are directly comparable to what is envisioned for the Eureka business incubator, discussions with real estate brokers indicated that a lease rate of around $1.40 per square foot would not be unreasonable. While most office spaces in the Eureka market are offered using a modified gross lease structure, this analysis assumes a full service lease, in the interest of simplicity. At 15,000 square feet, the total cost of leasing a space would be around $252,000 per year.

Table 13 reports the proposed pricing structure for the three categories of leasable space that would be provided within the incubator. This includes two office suites at 1,200 square feet, which are priced at a rate comparable to what the ESA team thinks that the incubator program might expect to pay, if located within a larger high quality office building. The smaller office suites are priced at the same base rate, plus a 20 percent per square foot premium, reflecting the smaller size and the lower overall cost that would be paid by the tenant. This rate of approximately $1.67 per square foot is roughly on par with the per square foot cost of other small, higher-quality office spaces in Eureka. The co-working spaces are priced using a formula that is common to co-working environments, which essentially equals three times the cost of providing the space, broken down so that it can be applied on an hourly basis.[98] If a co-working tenant were to occupy a space on an ongoing basis, the program may want to implement a tiered structure that allows longer-term co-working at a reduced cost similar to the rates paid by tenants of the smaller office spaces.

Table 13: Proposed Incubator Leasing Rates

Function	Number of Spaces	Sq. Ft. Per Unit	Price Per Unit (a)
Office Suite	2	1,200	$1,680 / month
Small Offices	24	150	$250 / month (b)
Co-Working Space	40	50	$2.40 / hour (c)

Notes:
(a) Assumes a per square foot lease rate of: $1.40
(b) Includes a 20 percent premium for the smaller, near-term offices.
(c) Co-working spaces are priced using a formula that is common to co-working environments, which essentially equals three times the cost of providing the space, broken down so that it can be applied on an hourly basis.

Source: BAE, 2015

Financial Analysis and Employment Impacts

The following analysis provides a brief overview of the anticipated costs associated with establishing the incubator program, as well as the anticipated annual costs and revenues associated with operating the program once stabilization has occurred. The analysis also includes a brief discussion of the potential employment impacts associated with the proposed program, based in national trends in the business incubation industry. This assumes that the program would be well run, with sufficient resources to both recruit and support a robust pool of entrepreneurs and burgeoning small businesses.

[98] The formula for pricing co-working space is based primarily on the cost of providing the space. That value is then multiplied by three, and divided by the total square footage of the occupied space, divided by 100. The resulting value is then divided by the average number of business hours per month to get the total price per hour.

Business Incubator Startup Costs

As noted earlier, this analysis assumes that the incubator would occupy an existing office space located within a larger office building at a full service lease rate of $1.40 per square foot. While the actual amount paid, as well as the lease type (e.g., full service, modified gross, etc.) may vary, the ESA team expects that the total annual cost estimate reflects the correct order of magnitude for this type of a facility, at around $250,000 per year. Similarly, the furnishing and equipment costs identified above are intended to be generally representative and may vary somewhat form what will ultimately be paid upon implementation. However, the ESA team has taken steps to ensure that the overall figures provided are generally representative. With projected costs associated with furnishings and equipment totaling around $120,000, the total anticipated startup cost for outfitting the facilities would likely equal around $375,000.

In addition to facility costs, the program would need to hire staff to manage the program and provide some services. These would include an Incubator Program Manager and at least one support staff person. This analysis assumes that the salary associated with hiring a Program Manager would be approximately $80,000 per year. This figure assumes that the salary would be comparable to the median salary for a program manager level position with a local government agency in Humboldt County. This analysis assumes that the salary for the support staff person would be approximately $50,000 per year, which is equal to the median salary for a mid-level staff person with a local government agency in Humboldt County. Assuming that salary costs account for approximately 70 percent of total compensation, annual personnel costs associated with the initial establishment of the incubator would be around $185,000.

Operating Costs and Revenue

While most incubators generate the majority of their revenue from client rents and service fees, approximately two-thirds also receive some form of operating subsidy.[99] The ESA team anticipates that the proposed incubator would likely operate in a similar fashion. The following analysis outlines one potential scenario that is likely to be representative. The analysis focuses on identifying the likely order of magnitude for operating costs, revenues, and operating subsidies. The analysis assumes that the program has reached stabilization.

Based on the facility layout and pricing strategy described above, the ESA team estimates that the incubator could likely achieve lease revenues on the order of $200,000 per year, as reported in Table 14. This assumes full occupancy of the two larger office suites and 80 percent occupancy among the smaller office spaces. Due to the fluid nature of co-working, the ESA team assumes that, an

[99] Knop, L. (2012). *2012 State of the Business Incubation Industry*. Athens, OH: NBIA Publications. Retrieved from: http://www.nbia.org/

annual average basis, the incubator could expect around 50 percent occupancy of the 40 co-working spaces, with some periods experiencing both higher and lower occupancy.

This analysis also assumes that the program will receive at least some income in the form of fees for services provided through the incubator. These may include a nominal fee for program participants to engage in educational classes, or may include more substantial fees associated with services provided to both Affiliate and Incubator level clients. While providing low-cost services is one core function of most business incubator programs, the ESA team also recognizes that some financial outlay on the part of clients can help to 1) screen out prospective participants that are less committed to business growth and development, and 2) incentivize the continued engagement of the program participant in the services provided (e.g., fosters a mentality of "I want to get my money's worth"). Fees for services provided to Incubator Clients should also reflect the greater degree of engagement that these clients are likely to have with program staff and service providers, due largely to their presence within the incubator facility. Based on this type of a program fee structure, the ESA team estimates that the program could reasonably generate revenues of around $20,000 to $25,000 per year based on fees for service charged to program participants at all levels.

Ongoing incubator operating expenses are assumed to include the facility lease costs. In the event that a building is purchased or constructed for use by the incubator, the program likely would face some sort of debt service requirement, though the ESA team anticipates that such costs would be similar in magnitude, if not higher, than what is being modeled for this analysis. Other operating costs include telecommunication services (i.e., phone and internet service) for the administrative offices, professional services (i.e., legal counsel, etc.), office supplies (i.e., printer paper, ink, etc.), and marketing and public relations (i.e., website development, print advertising, networking events, etc.). Programming costs include pass-through dollars and special fees paid to program partners for providing services to incubator clients. Personnel costs are based on the same assumptions discussed earlier, though the Program Manager is assumed to reduce the amount of time devoted to program-related business to 75 percent, which corresponds with industry averages. In total, incubator operating expenses are estimated to amount to around $436,000 per year.

Table 14: Estimated Annual Operating Revenue and Expense

Revenue Category	Estimated Revenue	Percent of Total
Lease Revenue (a)	$200,000	91%
Fees for Service	$20,000	9%
Total, Revenue	**$220,000**	**100%**

Expense Category	Estimated Expenses	Percent of Total
Facility Lease (b)	$252,000	58%
Telecommunications (c)	$1,500	0%
Professional Services (d)	$5,000	1%
Personnel (e)	$157,000	36%
Office Supplies (f)	$10,000	2%
Marketing and Public Relations (g)	$2,500	1%
Programming Costs (h)	$8,000	2%
Total, Expense	**$436,000**	**100%**
Net Revenue/ (Expense)	($216,000)	

Notes:
(a) Lease revenue is calculated assuming 100 percent occupancy of the two larger office suites, 80 percent occupancy of the smaller offices, and 50 percent occupancy of the co-working spaces.
(b) Assumes that the program will lease space within an existing higher-end office building at a rate of $1.40 per square foot. Lease terms are assumed to be full service, which include maintenance, insurance, and utilities (electric, gas, water, sewer).
(c) Assumes that the program will pay for telephone service for administrative spaces only. All other costs will be passed on to tenants. The identified cost is based on an average of three active lines, at a monthly cost per line of approximately $40.
(d) Includes estimated expenditures on legal services, IT maintenance, and other professional services.
(e) Includes salary and benefits for an Incubator Program Manager and one support staff person. Salary levels are assumed to be comparable to local government staff with similarly levels of experience. Salary is assumed to account for 70 percent of total compensation, with the remainder being benefits. Costs associated with the Program Manager assume a 3/ 4 time schedule.
(f) Includes purchasing paper and ink for printers, as well as assorted other office supplies for administrative and co-work spaces.
(g) Assumes an assortment of both print and online marketing, as well as website maintenance.
(h) Includes expenses associated with payments to program partners for providing classes, clinics, and other assistance.

Source: BAE, 2015

Table 14 summarizes the revenue and expense estimates discussed above. In total, the ESA team anticipates that average annual revenues would equal approximately $220,000 per year, while expenses are likely to equal around $436,000 per year. To the extent that the program can generate additional revenue through improved occupancy, higher lease rates, or increased fees for service, the total revenue generated may be greater that what is being modeled. Similarly, if the program can identify methods for reducing operating expenses,

such as working with partners to limit programming costs or sharing staff with other agencies, the total expenses may be less than what is being modeled in this analysis. However, based on the above estimates, the ESA team estimates that the program would require an ongoing operating subsidy that is on the order of around $216,000 per year. Note that the program may also achieve greater economies of scale by increasing the overall size of the program/facility. However, in order to ensure that the program could fully lease the available space and recruit the required minimum number of clients, the ESA team determined that a smaller initial format would be a more conservative, and subsequently more appropriate, alternative.

Estimated Employment Impacts

Table 15 identifies the estimated employment that would be located in the incubator operation itself. This includes program staff, and estimated owners and employees at the anchor tenants and small office tenants. The estimates assume that each office suite contains six smaller offices. All work spaces are assumed to contain one worker, with the exception of the small offices. Half of the small offices are assumed to contain only one worker, while the other half contain two workers. Under these assumptions, the incubator could contain a total of 90 jobs, including administrative staff. Applying the same occupancy assumptions used for the financial analysis, the ESA team estimates that the incubator would house around 60 jobs on an ongoing basis.

Table 15: Estimated On-Going Employment Impacts

Function	Number of Spaces	Jobs Per Office		Estimaed Occupancy	Total Employment
Office Suite	2	6	(a)	100%	12
Small Offices	24	1.5	(b)	80%	29
Co-Working Space	40	1		50%	20
Administrative Office	1	2		100%	2
Total, All Areas					**63**

Notes:
(a) Assumes that each office suite contains six smaller offices, which accommodate one person each.
(b) Assumes that half of small office spaces are occupied by a single person, while half are occupied by two people.

Source: BAE, 2015

According to the NBIA *2012 State of the Business Incubator Industry* report, business incubators graduate an average of 6.5 resident clients per year, with a median number of only two graduate businesses. The average time spent within the incubation program for resident incubation clients is 28 months, while affiliate clients typically remain associated with the program for only 19 months. The average full-time employment among both resident and affiliate clients is 3.9 jobs, while the median is somewhat lower at 3.2 full-time staff. In addition,

the average part-time employment among resident and affiliate clients is 1.23, with a median value of 0.7 full-time equivalent part-time employees. Once the Eureka business incubator reaches stabilized occupancy and program participation, the ESA team believes that it would be reasonable to expect that the program could graduate at least two businesses per year, with average employment levels falling within the ranges described above.

The long-term impacts of business incubator programs are more challenging to quantify. There are limited data available regarding the net economic impact of business incubation programs, both in terms of induced employment growth and export activity. While most business incubator programs do not collect information on participant business following graduation, the 2012 NBIA survey was able to collect sufficient information to provide some high-level estimates of the approximate survival rate among incubator graduates. Among all incubators, the average graduate survival rate is reportedly around 87 percent, while the median is around 93 percent, indicating that the majority of participant businesses are able to establish viable business operations outside of the incubator context.

However, a different study published in 2010 called *Boon or Boondoggle? Business Incubation as Entrepreneurship Policy* the observed that the average incubated firm stays in business for around five years before closing, being acquired, or merging with another company.[100] The study also concluded that an average of 42 percent of incubated firms close within the first four years and that only four percent of incubator participant businesses actually graduate from the program. That said, the average employment among incubated firms was estimated at 4.43 full-time equivalent employees, compared to 3.45 for un-incubated firms. The most significant conclusion from this study is that the performance of incubation clients both within the incubator and following graduation, is closely correlated with certain characteristics associated with both the entrepreneur and the incubation program.[101]

Potential Funding Sources

Given the preferences of most funding organizations, the incubator program is most likely to receive supplementary funding for the establishment of the facility/program only. Possible funding sources may include, but are not necessarily limited to:

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[100] Amezcua, A. (2010). *Boon or Boondoggle? Business Incubation as Entrepreneurship Policy*. Syracuse, NY: Syracuse University. Retrieved from: https://www.maxwell.syr.edu/uploadedFiles/news/BoonOrBoondoggle.pdf

[101] University-sponsored programs and for-profit incubators appear to out-perform nonprofit incubators and those sponsored by entities other than educational institutions. Also, women-owned businesses out performed male-owned firms within the incubator context.

Economic Development Administration – The EDA provides funds through a number of different programs to support a wide variety of economic development efforts. EDA grant programs include those focused on economic adjustment, local technical assistance, public works, and trade adjustment for firms, as well as other special programs. Economic adjustment assistance program funds can be used for technical, planning, and public works and infrastructure assistance.[102] However, the applicant must demonstrate that the proposed project will start up quickly and create jobs, as well as promote a diversified and prosperous economy. The applicant community must also meet certain criteria with regard to need. Local technical assistance program funds, with which this study was funded, can be used only toward the creation of regional economic development plans.[103] Public works program funds can be used toward the development of key infrastructure, such as facilities that utilize distance learning technologies and business parks utilizing fiber optic cable. Public works funds can also be used to fund the development skills-training facilities. All EDA investments must align with the EDA's current investment priorities and help the community promote job creation and private investment. Trade adjustment assistance is available only to qualifying businesses. While implementation of the business incubator program is not an eligible activity under the technical assistance program, the City should consider applying for EDA funds through the economic adjustment assistance program and the public works program. These funds could facilitate program startup, but cannot be used for ongoing operational support.

U.S. Department of Agriculture – The USDA operates a number of grant programs that could potentially be leveraged to facilitate establishment of a business incubator. The Rural Business Development Grants program supports targeted technical assistance, training, and other activities leading to the development or expansion in rural areas of small and emerging private businesses that have fewer than 50 employees and less than $1 million in gross revenues.[104] Local jurisdictions are among the eligible applicants. Total grant amounts can range from as little as $10,000 to as much as $500,000. Funds can be used for the establishment of rural business incubators, as well as other purposes, such as capitalization of revolving loan funds. Another related program is the Rural Business Opportunity Grant, which uses similar criteria to the Rural Business Development Grants program, but with a maximum award of

[102] *Economic Development Administration Overview.* (2015). Retrieved from: http://www.eda.gov/annual-reports/fy2012/overview.htm
[103] U.S. Department of Commerce. (2015). Planning Program and Local Technical Assistance Program. Retrieved from: http://www.grants.gov/view-opportunity.html?oppId=189193
[104] U.S. Department of Agriculture. (2015). *Rural Business Development Grants*. Retrieved from: http://www.rd.usda.gov/programs-services/rural-business-development-grants

$100,000.[105] The USDA also operates a Rural Microentrepreneur Assistance program, which provides between $50,000 and $500,000 toward the establishment of a micro-revolving loan fund.[106] The ESA team recommends that the City consider applying for Rural Business Development Grant program funds to support the establishment of the business incubator program, since rural business incubators are identified among the eligible uses. Funds from either USDA program may also be used to fund the renewal of the Economic Fuel program.

State Community Development Block Grant (Small Cities CDBG) – Under the federal Community Development Block Grant (CDBG) program, local governments with populations greater than 50,000 typically participate in an annual "entitlement" program. Smaller units of local government are subsequently eligible to compete within their respective states for non-entitlement CDBG funds. The California Small Cities CDBG program provides non-entitlement grant opportunities through its Economic Development Allocation for a variety of uses, ranging from over-the-counter services, to business assistance, microenterprise assistance, and planning and technical assistance.[107] According to the California Department of Housing and Community Development, applicants for over-the-counter funds can request up to $5 million.[108] Eligible activities include loans or loan guarantees to businesses, as well as grants for publically-owned infrastructure or small businesses incubators. Grants made through the state Enterprise Fund are capped at $500,000.[109] Eligible activities include loans to businesses for working capital, land acquisition, equipment purchase, inventory purchase, debt restructuring, and microenterprise assistance. While project funding decisions are made by the jurisdiction, businesses receiving Enterprise loan funds must create or retain private sector jobs principally for low-income and very low-income persons. With a maximum award of $5 million, and business incubators identified among the eligible uses of those funds, the ESA team expects that the

[105] U.S. Department of Agriculture. (2015). *Rural Business Opportunity Grants (RBOG)*. Retrieved from: http://www.usda.gov/wps/portal/usda/usdahome?contentid=kyf_grants_rd2_content.html

[106] Loans funded through a USDA funded micro-revolving loan fund are capped at $50,000, with a fixed interest rate and are limited to 75 percent of project costs. Loan funds can be used for working capital, debt refinancing, or the purchasing of equipment, supplies, or real estate.

[107] California Department of Housing and Community Development. (2015). *CDBG Program - Economic Development (ED)*. Retrieved from: http://www.hcd.ca.gov/financial-assistance/community-development-block-grant-program/econdevelopment.html

[108] Cappio, C., Whittall-Scherfee, L. (2015). *2015 Notice of Funding Availability: Community Development Block Grant Program (CDBG)*. Sacramento, CA: California Department of Housing and Community Development. Retrieved from: http://www.hcd.ca.gov/financial-assistance/community-development-block-grant-program/docs/2015_nofas/2015-cdbg-nofa.pdf

[109] California Department of Housing and Community Development. (2015). *CDBG Program - Economic Development (ED)*. Retrieved from: http://www.hcd.ca.gov/financial-assistance/community-development-block-grant-program/econdevelopment.html

Small Cities CDBG program likely represents the best opportunity to secure funds to establish the business incubator.

Local Charitable Organizations – In addition to the above governmental funding sources, the City of Eureka should consider opportunities for funding a business incubator using resources provided by local charitable organizations. The North Coast is endowed with a number of foundations, community organizations, and private trusts that provide funding for a wide variety of activities through competitive grant processes. Examples of local charitable organizations that operate competitive community-oriented grant programs include the Humboldt Area Foundation and the McLean Foundation. The Humboldt Area Foundation, in addition to managing its own Community Grant program,[110] also coordinates with a number of affiliate organizations which also offer grant opportunities, including the Central Coast Community Investment Program and the Co-op Community Fund, among others.[111] The McLean Foundation, by comparison, manages only its own grant program, but makes funding available, on a competitive basis, to city and community projects that more broadly benefit the residents of Humboldt County.[112]

Other Potential Funding Sources – Though not an exhaustive list, there are a variety of other potential funding sources that the City of Eureka and its partners might explore in order to facilitate the establishment and operation of a business incubator program. These may include, but are not limited to:

- Other City or County resources;
- Corporate sponsorships;
- In-kind contributions; and
- Donations and gifts.

Potential Siting Options

For the purposes of this analysis, the ESA team assumed that the incubator would occupy an existing office space that is leased from a private property owner. The total space requirement for establishing a reasonably sized business incubator is around 15,000 square feet, which provides a sufficient amount of space for at least two larger long-term tenants, as well as a variety of smaller offices and co-working spaces, in addition to program administration office space. A review of currently listed for-lease office space located in the City of Eureka identified 21 currently available office spaces ranging in size from 350

[110] Humboldt Area Foundation. (2015). *Humboldt Area Foundation Managed Grants*. Retrieved from: https://www.hafoundation.org/index.php?option=com_content&task=view&id=56&Itemid=114

[111] Humboldt Area Foundation. (2015). *Affiliated Grants*. Retrieved from: https://www.hafoundation.org/index.php?option=com_content&task=view&id=57&Itemid=115

[112] McLean Foundation. (2015). *Grant Guidelines*. Retrieved from: http://mcleanfoundation.org/grant-guidelines

square feet to 8,491 square feet, with an average of around 2,320 square feet. The per square foot lease rate for these spaces ranged from $0.42 per square foot to $1.80 per square foot, with an average of $1.08 per square foot. This suggests that there currently are not existing vacant office spaces being actively marketed within the City of Eureka that would meet the needs of the proposed business incubator. However, conversations with local real estate brokers indicate that there may be available spaces that are not reported in the current listings of for-lease properties. For example, Scott Pesh with Coldwell Banker Commercial is the agent representing the former Bank of America building located at the intersection of F Street and U.S. 101. The building offers an open main floor that could be built out to accommodate small offices and co-working space, as well a number of smaller office spaces located on the second floor. The building offers high visibility along F Street and U.S. 101, a central location within the core business district of the City of Eureka, with proximity to a variety of desirable arts, recreation, and culinary amenities in Old Town Eureka. The building features CS zoning, which could accommodate either retail or office uses. Similarly, the City may also want to consider other existing retail and/or commercial spaces in the downtown and Old Town areas, which would provide much needed visibility. Also, a number of local developers and investment companies, such as Kramer Investment Corporation, have recently purchased and renovated a number of large commercial buildings in the downtown and Old Town areas, including the Healy Brothers Building, among others. The City should consider working with one of these entities to either locate a space that would be appropriate for establishing the business incubator, or to create a space that would specifically suit the needs of the business incubator program, as described in this report.

Given that lease costs account for a majority (58 percent) of incubator program expenses, the City and its partners may also want to explore the potential purchase of a building and/or facility. Although purchase of a building would involve a greater initial commitment to the project, versus leasing a facility, grant programs profiled previously appear to be more likely to fund capital costs than ongoing operations costs. Thus, funding a building purchase and related capital costs with grant funds could then put the incubator in the position of avoiding ongoing real estate lease payments, which could then reduce the annual operating subsidy that would be required. It should be acknowledged that an incubator in an owned facility would incur certain costs of ownership, such as maintenance and depreciation costs, that would otherwise be reflected in lease payments.

A brief review of current for-sale real estate listings identified seven for-sale office buildings within the City of Eureka. These ranged in size from 3,275 square feet to 22,176 square feet, with an average of 10,343 square feet. Most have existing tenants which would need to be relocated in order to provide

space for an incubator. Pricing ranges from $36 to $125 per square foot, with an average of $93. The only space large enough to accommodate the proposed facility would be the U.S. Post Office building at 231 2nd Street. Similar to the leasable office stock, the for-sale inventory is primarily characterized by low quality, largely obsolete office space, which would require considerable rehabilitation. The ESA team also identified three currently for-sale retail spaces, though these would be too small to reasonably accommodate a business incubator, with a maximum of 11,000 square feet. Pricing for these spaces was considerably higher, at around $250 per square foot, excluding outliers. At current pricing levels for both office and retail space, the total cost associated with purchasing a 15,000 square foot space would range from an average of $1.4 million for office space to $3.8 million on the upper end for retail space.

For additional details regarding the inventory of for-lease and for-sale properties identified for this research, please refer to Appendix F.

Economic Gardening Recommendations

Where the business incubator would be primarily positioned to support entrepreneurship and business development among self-employed and first stage businesses, the establishment of an economic gardening program would better position the City to provide support geared toward larger and more established firms. The remainder of this section reiterates the primary rational for pursuing an economic gardening program and reviews the types of services typically provided and the methods for service delivery, as identified in the literature.

Why Pursue Economic Gardening?

The goal of an economic gardening program is to provide a nurturing environment for entrepreneurs and growth companies. Where traditional economic development policy has historically focused on "big wins," achieved through business recruitment, which often rely on large incentive packages, economic gardening programs focus on small wins. Put another way, economic gardening focuses on "bunts and singles, instead of home runs."[113] In this way, communities like Littleton, Colorado, have successfully grown their economies, providing opportunities for employment, as well as helping to retain wealth and earnings within the community. Some of the many advantages of economic gardening include:

[113] Gibbons, C. (2010). *Economic Gardening: An Entrepreneurial Alternative to Traditional Economic Development Strategies*. Washington, DC: International Economic Development Council. Retrieved from: http://www.hrp.org/Site/docs/ResourceLibrary/IEDC_EDJ_Gibbons-Economic_Gardening.pdf

- **Filling the support gap** – Second stage companies are typically too large for most small business assistance programs, but too large for many expansion and retention initiatives. Economic gardening programs provide services to meet their needs.

- **Better returns over time** – Though economic gardening programs do not deliver hundreds of jobs overnight, they often offer a greater long-term return on investment, creating more jobs at lower cost. For example, Rochester, New York, engaged 20 companies, creating 117 jobs, which translated into a cost of $1,700 per job.

- **Addressing front end of job creation** – Unlike many other economic development programs, which focus on providing space/buildings or removing regulatory barriers, economic gardening helps build demand for a company's products and services.

- **Expanding external markets** – Economic gardening programs help companies identify new markets, focusing on those located outside the host community. For example, 45 percent of survey respondents in Michigan increased their out-of-state business diversification since first engaging with the state economic gardening program team.

- **Cost effective impacts** – Economic gardening helps to scale the efforts of organizations that support entrepreneurs. For example, spending 10 hours with a startup company might net one new job and a $50,000 loan. The same amount of time spent with a second stage company could net five new jobs and $1.0 million in sales. The two programs subsequently work in concert to facilitate startup, then growth.

- **Ensuring program relevance** – Many entrepreneurs and second stage companies are skeptical of economic development programs because they often are not relevant for them. Pro-active and communicative economic gardening staff can address this by providing professional just-in-time research that directly addresses stated needs.

The Economic Gardening Toolkit

At its core, economic gardening is an information-based strategy for business development. It relies on a cadre of subject area experts operating in a just-in-time fashion, providing strategic information to the business community on an as-needed basis. The information typically provided falls into five key knowledge areas. These include core business strategy, market dynamics, qualified sales leads, innovation, and temperament. The methods typically utilized include computer-based tools such as database searches, website and search engine optimization (SEO), Geographic Information Systems (GIS), and social media network mapping, as well as decision making tools like strategy analysis,

management team temperament training, and capital referrals. By establishing a professional team of subject area experts, the program promotes access to sophisticated corporate-level tools that companies often can't afford, or of which they simply are not aware.

Key Information Areas

By providing information within the five key information areas, economic gardening programs provide critical information to help CEOs with mid-market firms make critical strategic decisions in a timely and informed way. Below is a brief definition of each:

- **Core business strategy** – Involves providing information to help CEOs make decisions about their core consumer base, products lines, pricing strategies, supply and distribution, etc.;
- **Market dynamics** – Includes a wide array of information ranging from demographic and consumer spending data to detailed profiles of competitive firms;[114]
- **Qualified sales leads** – Involves database searches, as well as direct referrals, that identify prospective customers or clients;
- **Innovation** - Includes information relating to new technologies, methods, or techniques being implemented by other actors in the industry;
- **Temperament** – Pertains to personality traits, such as extroversion and introversion, which impact both personal and business relationships, as well as how people process information.

Key Information Tools

In order to provide timely and accurate information pertaining to the five key information areas described above, economic gardening programs utilize an ever changing portfolio of software programs, databases, professional and social networks, and analysis techniques to address the needs of businesses on an as needed basis. These often fall into the following categories:

- **Core Strategy Analysis** – Analysis of a business's core strategies includes a comprehensive review, ranging from customer targeting, to product line and product positioning, production and distribution approaches, and market access strategies.

[114] Note that a well-run economic gardening program will not provide information on competitive firms located within the host community.

- **Search Engine Optimization** – In-depth analysis of existing websites (including optimization of the company's existing web pages), education on Google Analytics and key-word campaigns.

- **Geographic Information Systems** – Using detailed geographic, demographic, and market data to identify and map potential markets and customer populations, as well as additional spatial intelligence regarding potential expansion sites, competitor locations, and customer profiles.

- **Social Media Network Mapping** – Using social network analytics to map the structure of the online community, evaluate the strength of certain relationships, and identify key influencers. This information can be crucial for defining an effective online marketing strategy.

- **Temperament Training** – Focuses on developing better managers through evaluation and training regarding personality traits (e.g., introversion, extroversion, etc.) that impact inter-personal relationships, as well as identifying how people process information. This often involves the potential reorganization of job descriptions and organizational structures to improve employee motivation and to play to the inherent strengths of individuals.[115]

- **Capital Referrals** – Understanding the capital needs of businesses at different stages, economic gardening staff provide referrals to traditional and non-traditional loan providers, as well as local and non-local sources of seed-capital, venture capital funds, and angel investors.

- **Other Valuable Tools and Services** – While the categories described above encapsulate the vast majority of the services provided through a typical economic gardening program, there are some additional services that are often provided to do not fit neatly into the above categories. These may include, but are not limited to:

    - Sites selection analysis and support;
    - Industry trends analysis;
    - Competitor research and analysis;
    - Recruitment and hiring strategy;
    - Assistance locating and evaluating suppliers;

[115] In one case study conducted by the Lowe Foundation, the CEO of Coliant stated that "when you're a startup you need to hire people that grab the bull by the horns and work independently, but after you hit your first $1 million in annual revenue, you need people to begin working as a team." Coliant's management team underwent temperament training to help them become more cohesive and effective, to identify ways to better motivate employees, and identified a strategy to reorganize and redefine job descriptions to play to individual strengths.

- Liaison assistance with City departments;
- Business education seminars.

Format and Approach

First and foremost, economic gardening is not the same as traditional business assistance. Many communities, when introduced to the concept of economic gardening, often respond that "we do that, we just don't call it economic gardening." Some of the key differences between traditional business assistance and economic gardening are summarized in **Table 16**. More specifically, traditional business assistance is typically offered to any type of business, where economic gardening focuses primarily on second stage firms. Economic gardening also does not include basic business plan assistance or cash-flow analysis and similar support services. Where traditional business support services are often provided by a wide array of service providers, ranging from the SBDC, SCORE chapters, local governments and educational institutions, and non-profits, services provided under the NCEG model of economic gardening are provided by a specially trained team, which often operates remotely. Services are also provided on a short-term, just-in-time basis, with information being provided to businesses within 48 to 72 hours of the initial request, if not more quickly. In contrast, traditional business assistance can often be slow moving, taking days or weeks to schedule and implement. Lastly, most economic gardening programs provide services free of charge to businesses located within the host community, as well as to businesses considering locating within the host community. While traditional business assistance can sometimes be provided free of charge, these services are typically provided for at least a nominal fee.

Implementing Economic Gardening in Eureka

To facilitate the efficient and effective implementation of an economic gardening program, the ESA team recommends that the City of Eureka work with the Edward Lowe Foundation and the National Center for Economic Gardening (NCEG). The first option is for the City to engage in the NCEG pilot program. In order to participate, the City must recruit a minimum of five second stage companies. The NCEG would then provide up to 36 hours of targeted economic gardening services per company. The total cost associated with this approach is $4,290 per company, or a minimum of $21,450. The alternative would be for the City to establish its own program. To do this, the City would need to designate or hire staff and ensure that they have the necessary training to provide targeted, high quality services. The NCEG offers a six-week training course for general economic gardening staff, as well as team leaders. On the general track, the

Table 16: Economic Gardening vs. Traditional Business Assistance

	Economic Gardening	Traditional Business Assistance
Type of company assisted	Second-stage, growth-oriented companies in any industry that have been vetted and recruited	Any; sometimes narrow to startups, economic base, cluster-focused or high-tech firms
Type of assistance provided	For example: • Core strategy • Market research • Marketing leads • Search engine optimization • Management team structure	For example: • Business planning resources • Access to financing • Permitting issues • Incentives or grants • Workforce training • Façade improvements • Legal assistance • Succession planning • Cash-flow analysis • Etc.
Assistance provided by	Specially trained teams, often located remotely	EDO, SBDC, SCORE, government, nonprofit partners, local or regional
Intervention time frame	Immediate (30 days)	Short- to long-term
Focus	Strategic research, innovation	Cost savings (frequently)

Source: IEDC, Accelerating Success, 2012.

course includes six weeks of online learning, followed by a four-day retreat. The team leader track involves the same six-week online learning course and four-day retreat, followed by six to 12 months of peer-to-peer mentoring. The total cost associated with the general track is $1,200 per person, while the cost for the team leader track is $2,500 per person. Note that these service costs do not likely reflect the full cost of providing an economic gardening program. The full-service option reflects the per-client cost (including the cost of providing services, plus overhead and profit) for the NCEG, which is applied across a large number of clients, thus spreading out the overhead costs and reducing the per unit fee. The costs associated with the two training options represent the minimum cost necessary to provide basic staff training. These costs do not include expenditures necessary to acquire the necessary software and data subscriptions, as well as any continuing education services. Therefore, the City should understand that establishing an economic gardening program will require substantial and ongoing commitment, including staff time and financial resources.

Other Supportive Programs and Strategies

In addition to the business incubation and economic gardening recommendations discussed above, the ESA team recommends consideration of a number of supportive policies and programs, which target the needs of other key local industry clusters that are not specifically addressed through initiatives discussed above. These primarily include efforts targeted toward the food and beverage products manufacturing sector and the niche manufacturing/legal cannabis products industry. While these efforts could be considered as part of either a business incubator or economic gardening program, they do not fit cleanly within the traditional definition of either. For example, the components of the supportive program for food and beverage products manufacturing could be considered akin to a virtual incubator, if appropriately coupled with a robust suite of business development and education services.

Strategies to Support Food and Beverage Products Manufacturing

Based on the findings outlined in the market analysis, the ESA team recommends that the City of Eureka consider the following actions and programs in support of the food and beverage products manufacturing sector. These may be pursued either as a component of the business incubator and/or economic gardening program, or as an independent City-led initiative.

Commercial Kitchen Inventory

In order to promote greater access to commercial kitchen facilities, the City of Eureka should engage with the community to develop a comprehensive inventory of community kitchen facilities that meet the minimum requirements for commercial use. The City should also work with property owners to assess the following:

- Licensure and rehabilitation requirements necessary to make each facility suitable for the legal production of commercial food products;
- Any additional equipment that would be required to make each facility functional on a commercial basis;
- Willingness of the property owner to allow use of the facility by entrepreneurs and small businesses;
- Appropriate terms of use and screening criteria to ensure the safe and responsible use of community kitchen facilities.

Commercial Kitchen Scheduling and Coordination

Interviews highlighted a lack of knowledge regarding the availability of commercial kitchen facilities for short-term or periodic use. Using the inventory of suitable commercial grade kitchen facilities, the City and its partners should establish the following:

- Procedures for screening prospective users (e.g., some sort of application process incorporating a food handling training course);
- A mechanism for coordinating the use of the facilities, including an online schedule and usage policies and procedures;
- Policies concerning liability, both in terms of personal safety, as well as the use and care of property.

Establish Flexible Real Estate Lease Program

Acknowledging a lack of affordable commercial space within the Eureka market, the City and its partners should recruit local commercial property owners to participate in a program using a negotiated rate schedule (negotiated individually or collectively) for providing reduced rents to early stage businesses. The rate schedule can either be stepped, using a set period of time during which the tenant pays rent at an agreed upon rate, or can be a sliding scale, where the rent increases in conjunction with sales or other revenue. The purpose is be to provide a method by which early stage businesses can more easily secure adequate facilities, while providing a mechanism by which the effective lease rate will increase up to the agreed upon market rate over time. This program should be coupled with business development services to help provide property owners with assurances and/or a greater confidence that participant businesses would, in fact, be able to increase revenues, so as to afford to pay market rates for leasable commercial space within a reasonable timeframe. If successfully implemented in support of food and beverage product manufacturers, this program may be expended to include other forms of niche manufacturing, as well as other commercial business types.

Strategies to Support the Niche Manufacturing/Cannabis Products Industry

Based on the findings outlined in the market analysis, the ESA team recommends that the City of Eureka consider the following actions which would begin to lay the foundation for a legal cannabis products manufacturing industry. This research recognizes that the Eureka community has not yet reached consensus regarding whether cannabis should play a role in the future economic and cultural development of the Eureka community and, therefore, this study cannot speculate regarding the most appropriate relationship between the community of Eureka and a legal cannabis industry. The following recommendations are crafted in response to the likelihood that the legalization of recreational cannabis in California may potentially generate substantial negative economic impacts for the greater Eureka community. A proactive approach may help the Eureka community leverage the current window of opportunity, prior to legalization, to set the framework within which a legal industry might operate.

Build Consensus on How to Incorporate the Cannabis Industry

Interviews with business owners and community leaders of all types recognized the presence of the underground cannabis industry, in Eureka and throughout Humboldt County. Most recognized the considerable economic contribution of the industry to the city and the region, while simultaneously lamenting an array of associated issues. While it is difficult to gauge the timeline by which recreational cannabis will be legalized within the State of California, legalization in Colorado and elsewhere signal that action could plausibly be taken by the state legislature or by voter initiative within the near future. Given the considerable contribution of the underground industry to the local and regional economy, the community should begin an urgent and earnest discussion regarding 1) how to adapt to the loss of another primary export industry, and/or 2) how best to accommodate (or even encourage) the development of a legal cannabis industry. The decision to embrace or discourage the industry can only be made at the community level.

Identify Sites Appropriate to Accommodate Cannabis Related Manufacturing

Interviews with individuals knowledgeable regarding both the underground and legal cannabis industries indicated that there is a considerable amount of interest in establishing cannabis production facilities, both in Humboldt County and throughout California. These facilities may include growing operations, processing/refining, packaging, and/or distribution. They may also include more high-tech oriented research and development facilities. Interview participants indicated that once the appropriate zoning and legal infrastructure are in place, the industry will be able to design, finance, and develop the facilities that would be suit their needs. However, in order to do so, the City of Eureka would need to:

- Engage with the cannabis industry to inventory their needs;
- Identify sites that satisfy the industry's needs, while balancing environmental impacts/constraints and limiting negative interactions with adjacent land uses;
- Pursue the creation of a new zoning classification(s) that would outline the types of cannabis related uses that are permitted within the City;
- Develop site development standards, design standards, and other parameters.

Facilitate a Dialogue between Cannabis Industry Representatives

Interviews with representatives of the cannabis industry highlighted a deep desire to retain local control over the legal cannabis industry in Humboldt County. National industry leaders, however, question the appeal of the local industry to the broader investment community, due to issues of uncertainty. As a

result, it may be in the interest of the greater Eureka community to begin, and/or facilitate, a dialogue between members of the local and national leaders in the cannabis industry to strategically outline the region's competitive advantages within the legal cannabis market and to inventory the needs and concerns of investors. Using this information, the industry may be able to address some of the identified concerns and remediate any identified shortcomings in order to make the area more attractive for high value investment by local, regional, and national leaders in the industry. Also, through this dialogue, the community may work to broker agreements which ensure local involvement in any large-scale investments, while leveraging the knowledge and experience of the regional and national firms and organizations that are already working within the legal cannabis industry.

5 The "Go Ahead" Decision

The decision to implement the recommendations outlined in this study will depend on a variety of factors other than market feasibility and financial sustainability. In addition to concerns regarding market and financial performance, the community must consider to key questions from an implementation perspective, including the following:

- Is there sufficient political will to provide sustained support (or subsidy) for an incubator and/or economic gardening program over an extended period of time?

  Programs, such as those discussed here, are multi-year initiatives. Tenants often sign multi-year leases, while the average incubator participant will be engaged for more than two years. Most programs offer some form of pre- and post-incubation services. Staff will need to be hired, services will need to be marketed, partnerships developed and sustained. These activities take considerable effort and a steady commitment.

- Does the community have the financial capacity to support the program over an extended period of time?

  While the incubator is likely to produce some income from tenant rents and service fees, these are unlikely to be sufficient to cover all of the expenses associated with the operation. Similarly, most economic gardening programs are operated free of charge. Therefore the staffing, operations, and subscription costs must be absorbed by the host organization. While there are various strategies for reducing expenses and maximizing revenues, these cannot be pursued at the expense of program quality.

The programs discussed in this study are costly investments, which offer the potential for enhanced entrepreneurship and improved business performance. A well designed incubator and economic gardening program staffed by a

competent professional staff have been proved to offer substantial economic benefits. However, if not implemented well, with the full commitment and resources of the host community/organization, similar programs have been shown to produce sub-optimal results. The decision to proceed must include an assessment of the community's ability and willingness to follow through, as well as an earnest evaluation of the community's willingness to accept both the benefits and costs of the proposed program.

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